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Europe after the World War.

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Europe after the World War

A Financial and Economic Survey

BY

W. R. LAWSON

Author of "British Economics," "British Railways," "American Industrial Problems," "American Finance," "Canada and the Empire," "John Bull and his Schools," "Modern Wars and War Taxes," "British War Finance."

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CONTENTS.

INTRODUCTION . . .	I—12
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PART ONE—*Armageddon.*

CHAP.

I. The First Shock . . .	13
II. Its Colossal Cost . . .	25
III. From War to Peace . . .	40
IV. The Napoleonic and the Kaiser Wars . . .	55

PART TWO—*Its Industrial Effects.*

V. The Labour Deadlock . . .	74
VI. The Coal Crisis of 1920-21 . . .	95
VII. The International Soviets . . .	109
VIII. Councils of Action . . .	123
IX. Labour's Foreign Policy . . .	132

PART THREE—*Its Financial Effects.*

X. War Taxes . . .	145
XI. War Debts . . .	158
XII. War Banking . . .	174
XIII. War Currency . . .	189

PART FOUR—*Its Commercial Effects.*

XIV. Our Lop-sided Foreign Trade . . .	203
XV. The Foreign Exchanges . . .	218
XVI. The Slump in Sterling . . .	230
XVII. Causes of the Foreign Exchange Crisis . . .	244
XVIII. The State Transport Jumble . . .	256
XIX. Reconstruction . . .	269

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PREFACE.

THE ECONOMIC RECONSTRUCTION OF EUROPE.

THE special task of the Twentieth Century will be the building of a New Europe on the blood-soaked ruins of the old one. In those four years of slaughter and destruction as much havoc was perpetrated as will take at least two generations to repair. We are only now in the third year of peace beginning to realise the stupendous magnitude, the infinite complexity and the superhuman difficulty of the adventure. Only now does it dawn on us what a wonderfully intricate and complicated structure our pre-war civilisation was. Amid its ruins we find relics of industrial and commercial life almost impossible to restore. Enterprises which boomed before the war have been wrecked or paralysed or thrown out of gear. Businesses which were flourishing and prosperous have had to be put on short time, if not completely closed. Workers who were earning as much in a week as they formerly did in a month have had to join the great army of the unemployed.

If such things could happen in favoured and fortunate England, which saw the war only from a distance, what tragedies befel the war-stricken regions! Ravaged with fire and sword, they were depopulated, devastated, desolated and literally destroyed. They had to begin life again among

the wreckage of a happy and peaceful past: to begin it *sans* food, *sans* shelter, *sans* money, *sans* credit, *sans* everything. Their only consolation was that outside of the devastated areas, especially in Great Britain and the United States there was abundance of wealth waiting to rush to their aid. Not the smallest tragedy of the war has been the comparative failure of the many relief schemes and missions which have been started for the benefit of the bankrupt nations of Central Europe. Neither the British nor the Americans, had financial organisations adapted to the emergency. Their deposit banks had ample funds for short credits, but in this case long credits were required to give the devastated countries time to balance their budgets, to restore their depreciated currencies, to level up their foreign exchanges and to re-establish their solvency.

None of these relief schemes has so far achieved a substantial success. After nearly three years of prospecting, planning, criticising and conferring they are still in the experimental stage. The nearest approach to actual business has been made by a British combination of the Treasury, the banks and the insurance companies to work out Sir Edward Mountain's plan of export credits. But even if this or the rival scheme of the Dutch banker, M. Ter Meulen, should be realised they can only be a temporary and transition remedy. For the final work of reconstruction a special bank will be required—an International Bank of Europe. It will have to be organised by the State banks and other leading banks of Europe and America. Only banks should hold shares in it and they should not be transferable in the open market. It should issue its own notes and they should be available both for national and international use. At the same time it should assist States swamped with paper money to gradually deflate it or to replace it with sound currency. Incidentally, it should promote all kinds

of industrial development—agriculture, mineral production, manufactures, transportation, etc.

The Peace Conference of 1919 worked out—on paper—a political reconstruction of Europe. It has proved a very ramshackle structure, but so far it still holds together in its principal features. The Conference made no attempt at economic reconstruction. It only discovered afterwards, when it was too late for effective action, that that was the most important part of its task. It had, however, created an offshoot in the League of Nations, to which all sorts of odd jobs might be assigned. The League, though originally intended solely for a bulwark of the world's peace, had a very elastic constitution, which might embrace an endless variety of functions: among others to take over the economic and financial duties of the Peace Conference. It is finding them a stupendous task and cannot as yet be said to have made much impression on it. But it has served a useful purpose in acting as a common centre and rallying point for the various national efforts to restore the war devastated countries.

The object of this book is to present to British readers a general view of the many economic difficulties and perplexities with which the reconstructors of Europe have to grapple and may have to keep on grappling for many years to come. In other words, it is intended to diagnose the political, industrial and financial diseases which have been inherited from the war.

Pre-war society has broken down at a thousand different points. It is fast losing its old instincts of honour, honesty, prudence and sobriety. The comfort and content of thirty or forty years ago are vanishing. The whole science of economics is being revolutionised. International relations are being re-cast on all hands. All the nineteenth century pro-

blems which our grandfathers flattered themselves they had definitely settled are re-opening around us in more complex forms. The damage caused by the war is not to be measured by debt and taxes. These are mere monetary details, while the injury to the moral and economic life of the nation may be vital and lasting.

A war which cost so many millions of lives and so many thousands of millions of property ought, in order to justify itself, to have proportionate results. But it may be many years before a final balance can be struck between the pre-war and the post-war worlds. So far as it has gone it would seem to be considerably on the wrong side. But that may be because we have had to deal chiefly with its grosser material aspects. The moral value of our world victory has been obscured by the base juggleries of politics and the sordid excitements of finance. Until it has cleared itself of these earthly elements the spiritual victory we have won will not shine forth in its full radiance.

What we are feeling most to-day is the damage it has done to our pre-war lives. It has undermined them, thrown down some of their strongest supports, shattered many of their fondest illusions, falsified some of their brightest hopes and uprooted more than one of their most sacred principles. Sentiments which before the war were a national heritage are now the scoff of anarchists and revolutionaries. Customs of centuries' growth have been pushed aside by the jazz fashions of yesterday and to-day. Policies worshipped by generations of loyal Englishmen have been exchanged for the ravings of Bolsheviks and other blood-curdling maniacs. It is in these mad excesses that the full measure of our moral shock is revealed.

But there may be some negative excuses to make for the war. It may with a certain amount of truth plead that it is not solely responsible for the world-wide debacle in which we

have been plunged. Without it there might have been volcanic changes in our social system. Symptoms of them had begun to show themselves before 1914. A proletarian war was looming on the horizon, while the Prussians were preparing for their ruthless crime. Without the Kaiser we might have had Lenin and Trotsky. The revolt of labour would have come in due time, war or no war. It is even arguable that the war mitigated its ferocity and diverted much of its energy into better and more patriotic channels.

Times of crisis and commotion are most favourable to financial and economic investigation. Theories can then be quickly put to the test ; old errors and fallacies can be corrected; practical experience can be enlarged ; a firmer grasp can be taken of tested truths and a stronger denial given to falsehoods. But the sensible reader will not expect cut and dried conclusions at the close of each chapter. He should, as a rule, be content with intelligible descriptions of the problems. Solutions are as yet few and far between. In this vast wilderness of mysteries, hallucinations and contradictions, the cleverest of mankind have to be content with the role of spectators, rather than of actors. The best we can do is to watch closely the kaleidoscopic changes taking place in the post-war panorama and piece them together as we best can.

[While these final pages have been going through the press another national crisis has broken out. It threatens to be the most formidable which the nation has ever had to face. Under many different names and disguises the fundamental question to be settled is—Who are to control the destinies of the British Empire and the Anglo-Saxon race—the forces of order or the forces of disorder? Every sane and honest citizen will, of course, be on the side of order.]

WORTHING.

W. R. LAWSON.

April, 1921.

INTRODUCTION.

How many of us yet realise that the world war was the end of an old and the beginning of a new era? It was the starting point of a new social, political and economic dispensation. We go on thinking the old thoughts, dreaming the old dreams, building on the old foundations, working with the old tools, pouring the old wine into the new bottles; trying to count in millions with our old multiplication tables which stop at thousands. Our ideas of business have been completely deranged. Our monetary standards have been upset. Our financial system has lost its original meaning and significance.

We continue to talk in pre-war terms of things which, before the war, we should have considered absolutely impossible and even inconceivable. Statisticians bravely calculate the total cost of the war at something more than fifty thousand millions sterling, and they speculate on how many generations may be needed for its liquidation. But not one in ten of them seriously believes that it will ever be liquidated in the ordinary matter of fact sense. It may be reduced, refunded, and many times reshuffled, but most of it will hang on indefinitely in one form or another. If the nineteenth century could not clear off a comparatively small debt of 800 millions, how can the twentieth century be expected to wipe out ten times the amount?

To a bald question like that there is obviously no offhand answer. But may not the question be changed, or modified, so as to render it answerable? Should public debt and private debt be always judged by the same rules and administered under similar conditions? Hitherto, this has been generally assumed and hence a large part of the confusion in which the controversy is now plunged. Far from being the case that all

kinds and classes of debt are to be measured by one standard, it is the opposite of correct. The private debtor is at many disadvantages compared with the public debtor. He has little or no choice as to his means and methods of payment. On the due day, at the appointed place, he has to produce the specified sum in legal tender money.

But the public debtor has a free hand. He is not tied down to legal tender money, but has a wide choice of forms of credit. The larger his sphere of operation, the more numerous and varied his credit facilities. Consequently, individual standards are not applicable to the liabilities of corporate debtors who are often a law unto themselves. Still less applicable are they to those of State Treasuries. The latter have one distinction which places them in a separate category. They can create their own money and dictate their own terms. Their money creating power has, of course, economic limits, which, if exceeded, entail disaster, but these may be difficult to see until it is too late. On the other hand, by skilful use of credit, what seemed at first sight impossible burdens of debt may be temporarily financed and ultimately liquidated.

The mere total of a war debt is not the main point. It is the policy of the debtor Government, its administrative prudence, its honesty and its financial ability that matter most. The power of creating legal tender money to an indefinite extent when used wisely, carefully and scrupulously, may accomplish miracles. The one essential condition is that it retains the implicit confidence of the legal tender users. It is, therefore, a political, quite as much as a financial, problem. The prospect of the debt being paid off depends more on the method of liquidation adopted than on the amount to be paid. If we could flatter ourselves that the 8,000 millions sterling of our war debt had been judiciously spent we might well be hopeful about its recoupment; but can we?

Can we hope for greater economy in the measures adopted for repayment of the debt than was exercised in incurring it? If not, the outlook may become serious indeed. Financial and military authorities are all agreed that the war, if efficiently conducted, might have been finished in half the time and at half the expense. Mr. Chamberlain's preliminary estimate of its net cost to the British Treasury was 6,700 millions sterling. On this basis there must have been over 3,000 millions wasted, and—worse still—the wasteful methods which have already caused the country so much unnecessary loss seem to be almost impossible to check. These two circumstances should cause us much more anxiety than the money loss itself—overwhelming as that looks. They are not only disastrous, but discreditable.

It is, of course, the enormous magnitude of the debt that first strikes the observer, but it has other features still more overwhelming, as for instance, the multitude of its ramifications, the great diversity of theories and opinions it has produced, the sharp conflict of interests that rages round it, the rapid changes of mood it encounters among the public. The greatest mistake that could be made would be to treat this as a bald money question. It is much more a temperamental question, a question of national policy, a question of Parliamentary economics. Its fate will depend first of all on the character of the party politicians into whose hands it falls, and that is a mere matter of chance. A Conservative majority in the House of Commons would try one solution for it. A Radical majority would try another. One nostrum would commend itself to Free Traders and another to Tariff Reformers. Before forecasting a solution we would require to know the solvers.

A second set of disturbing influences that may affect the evolution of our war debt are the vagaries of party politics. Some of these may be favourable and others the reverse.

Socialist agitations may cut both ways. The demand for conscription of capital, alias a "levy on capital" looks at first sight unfavourable in-so-far as it tends to frighten off investors. On the other hand such demands may intensify the opposition they naturally excite, and in that way may frustrate themselves. The economic policy adopted by the House of Commons will decide the surplus income available year by year for debt liquidation. At the same time the industrial policy pursued will determine the productive income of the nation, from which the means for debt liquidation must be drawn. These two conditions will in their turn depend on the Labour policy of the coming generation.

The rivalry of the two commercial camps and its effects on the national well-being will speed up or retard the solution of the debt problem. The progress of British agriculture and the success or otherwise with which we grow our own food will be a powerful factor in restoring the nation to solvency. All our industries and resources will tell on the ultimate result according as they are well or ill developed.

A study of modern war debt discloses two gigantic movements: opposites of each other, and which should counter-balance each other if a safe equilibrium is to be maintained between them. On one hand is a steady accumulation of mortgages on the future earnings of the community, and on the other are ever increasing complications of credit machinery. The best skilled brains of their day are constantly employed in devising new methods of settling, renewing, transferring, converting or in some other way postponing current liabilities. Until the beginning of the present century the crediteering appliances could keep fairly well abreast of the accumulating liabilities, but the struggle between them grows critical.

In our pre-war history a workable, if not scientific balance was maintained between the debit and credit sides of the

national ledger, but it would be rash to predict how much further it may be carried. There must be a future point where it will break down, and already it can be seen that *bona fide* payment of debt is becoming not the rule, but the exception. A large proportion of the liabilities settled day by day are paid by creating fresh debt. Apparently no one stops to ask what the new debt represents, whether against every five or ten millions of Treasury bills issued substantial value has been or is being produced. There is endless talk going on about liquidation of debt, public and private, but comparatively little real liquidation is to be seen.

Under modern conditions, it matters little what the nominal amount of a nation's debt may be. Beyond a certain point liquidation becomes problematic. All the nation can hope to do is to provide for its annual service, in other words for interest and redemption. It was this natural limitation that necessitated the invention of Consols or Permanent Annuities. The best that the nineteenth century taxpayers could do for us as to war debt was to raise the necessary amount of interest. Just now our twentieth century taxpayers are hardly doing even that much. If their economic conditions do not quickly improve their debt-bearing capacity may be still further reduced. One thing we may be quite sure of—they will not submit to any revival of Permanent Annuities.

Should cash liquidation eventually become impossible, the form of the debt may have to be changed or the conditions to be modified. A gradual reduction in the rate of interest might have the same effect as a scaling down of the principal. It was by this method that the Napoleonic war debt was chiefly lightened. A large amount was indirectly paid off by converting it into terminable annuities. These have more scope now than then even and there should be greater demand for them.

The enormously increased body of national stockholders—in August, 1918, they numbered seventeen millions, provides the Treasury with a vast clientele to operate on. Every stockholder will be a possible annuitant and *vice versa*. The two classes playing into each other's hands should maintain a live market and that is half the battle. Whatever manipulation of the debt may become necessary in future years, each new type will keep afloat so long as it continues to be marketable. Its nominal amount in pounds, shillings and pence is, therefore, not an essential matter, but what can be got for the pounds, shillings and pence. The finest economy that could be performed would be such an expansion of our food supply—home-grown food especially—as would lower it again to pre-war prices, and restore the purchasing power of the sovereign.

It requires some optimism to anticipate such a blessing, but if it were to happen the greatest economic reform conceivable might then be attempted. This would be the conversion of our money standard into a food standard. The interminable complications and vicissitudes in the cost of living would thereby be simplified. The chief source of labour unrest, if not absolutely closed, would be greatly curtailed. The crushing burden of our world war debt must to begin with be substantially reduced, and its evil influence on the prices of commodities must be effectively restrained. This world war puzzle we are only now coming to close quarters with.

In one vital respect the Government loans of the future will have to differ from those of the past. They will all have to be terminable and to provide for their redemption within a stated period. This will render the Treasury liable to be pulled up at intervals and to have to make new arrangements with bond-holders who hesitate to extend their loans. The "Money Power," against which Independent Labour orators so furiously declaim will have frequent opportunities to assert

itself in a way against which Labour will be helpless without resorting to the final extremity of violence. In short the ultimate issue is in sight between the organised power of the purse and the blind undisciplined forces of the proletariat.

It is curious, but true, that the greatest financial problems of the day do not chiefly concern the rich as they were once supposed to do: they come closer home to the poor. The demagogue ranters who stir up hatred of capital may soon find, to their own surprise, that the most vital function of capital is food growing. That is the most beneficent and important use to which either labour or capital can be applied. Anything which checks their application to food growing is doing the gravest possible harm to the community and the most disloyal service to the State. No more important lesson than this is to be learned from the world war.

When we are racking our brains over the thousands of millions that we have still to pay for the world war, let us not forget certain other liabilities that also run into thousands of millions, but which cannot be fobbed off with paper money. Thousands of millions of bushels of grain and pounds of meat have to be raised every year in order to keep the human race alive. This should be the first consideration for our Statesmen, our politicians and our labour leaders. The real significance of our tremendous war debts can only be ascertained by thinking of them in terms of food and other necessities of life.

National finance can be graded according to the human services with which it concerns itself. A national debt which simply curtails the luxuries of the people need not excite much sympathy. One that restricts their comforts and commodities not absolutely necessary may be survived for a considerable time. It is only when the health and the strength of the community are threatened by financial disaster of any kind that national debt becomes a vital factor. Short of that it is only

a matter of business. An ingenious American writer foresees a time when "debt will be considered merely a process of finance."

Cash payment of our eight thousand millions of war debt is such a remote contingency as not to be considered within the range of practical politics. Meanwhile, it is likely to get mixed up with so many other economic questions of more immediate importance that they seem entitled to precedence. The economic bearings of such questions—a few examples of which are given below—overshadow the purely financial bearings :—

1. What effect is our world war debt likely to have on the earning power of the nation ?

2. On its industrial efficiency ?

3. On the economic habits of the people ?

4. On the volume of national production ?

5. On the cost of production ?

6. On the relations between the various classes and grades of producers from the capitalist employer to the wage earning employee ?

7. On the relations between producers, distributors and consumers ?

8. On the relations between the producing, distributing and consuming classes and the State ?

9. Where do the taxpayers come in and how are they to be affected ?

10. Finally, when and how is the new reign of swank to end ?

In the strenuous times ahead of us, it seems as if nearly all the root problems of national life will have to be revised and many of them adjusted to new solutions. These investigations will have to strike deeper than ever before, and to take a wider range. The problems to be solved are not only infinitely greater than ever before, but the number of people

interested in them is ever growing and the issues at stake are continually enlarging. Moreover they are being fought with rising passion and in many cases with fanatical zeal. Whole classes of society find themselves pitted against each other and hitherto quiet inoffensive citizens have been forced with their backs to the wall to defend what remains to them, of life and property.

This social revolution is already affecting all classes, and before it is finished every class, every interest and every institution may come within its wide sweep. But the domain chiefly affected will be economics. Already it has undergone a remarkable transformation since the days of the classical economic authorities of the nineteenth century. In its conceptions of wealth, its monetary standards, its attitude toward labour and capital, its theory of the functions of the State and of the rights of the individual citizen, it appears to have rushed from one extreme to the other. The first half of the nineteenth century was intensely, we might even say fiercely, individualistic. The verdict of history on the first half of the twentieth century—that is on our own generation—is likely to be quite the reverse.

That the Socialistic gospel is being preached to death and that every fresh development of it involves it in further failure and discredit can no longer be questioned. No intelligent observer believes for a moment that the Socialist movement can ever be carried through to a permanent success. But there is a sufficient amount of sympathy with its aims even among the survivors of the individualistic age to ensure for it a fair working chance. Its ideals are being rapidly accepted by thoughtful men of all creeds and classes, and it is being given many good opportunities to put them in practice.

Three-fourths of our current legislation is frankly Socialistic, and though much of it has been a sore disappointment

to its friends enough must remain to modify the old capitalistic heaven materially. But so far one very remarkable point has escaped notice. It has not as yet been realised that the change in our economic standpoint now going on should produce a corresponding change in our attitude toward the economic history of the past. It must needs be absurd to try to measure the social and industrial conditions of a century ago by the wholly different standards of to-day.

But apart from that the writing of history has itself undergone a great transformation. Heroics have had to give place to the humble chronicles of ordinary life. Kings, priests, soldiers and politicians have been elbowed aside by the man in the street. Political and economic problems have, in consequence entirely altered. National progress can no longer be measured solely by statistics of exports and imports, bank deposits, income tax assessments, etc. These may easily tell false tales of prosperity, and beguile the reader with a mirage of wealth. The riches they display may be to a large extent statistical like the intricate and elaborate calculations with which the statisticians of a past generation conjured so brilliantly. When the conjuring trick came to be examined much of the so called wealth was found to be of a very debatable kind and lots of it had been counted two or three times over.

Obviously, the statisticians were on a wrong tack, and a new conception of wealth had to be devised. The "goods and services" theory was invented to fill the gap, but so far very little has been done to fit it in and show it in operation. For that purpose a specific concrete example is required and the present work is an attempt to provide it. At the close of the Napoleonic wars the population of these islands was about 20 millions, and their economic problem was how to feed, clothe and house 20 millions of people with a minimum

amount of decency and comfort. Allowance has, of course, to be made for the standard of decency and comfort having been much lower in those days than it is to-day. Even Mr. Smillie should admit the reasonableness of that distinction.

We start, then, with a very mixed community of 20 millions and, discarding the historical methods hitherto pursued, we apply to them the new ideas now in fashion.

First, the up-to-date conception of wealth as not money, but "goods and services."

Second, the various Socialist doctrines beginning with Owen and St. Simon, and ending—for the present—with Mr. Smillie.

Third, Nationalisation or State Socialism exemplified in our own day by the more advanced of the trades unions.

Fourth, Syndicalism, which disowns Nationalisation, communism and all the older types of Socialism, and sets up a creed of its own far more selfish than the worst form of Capitalism.

On the Capitalist side many changes have also taken place, which modify and in some cases transform the economic problem. The industrial employer of a hundred years ago would not know his successor of to-day. Were he to re-visit Lancashire or any other industrial district, he would miss the free hand, the personal initiative and the light taxation to which he had been accustomed. In place of them he would find a network of officialdom, a maze of State control from which there was no escape, a crushing burden of taxes and a flood of labour unrest so-called. Against these changes for the worse he might, however, set a few of a more favourable character. Industry, commerce, banking and finance would present themselves to him in a far more imposing guise than they had worn in his time. Greatly reduced in number, but immensely improved in organisation, they would be tenfold stronger than ever before.

The trade unions are justly proud of the wonderful progress they have made in the past quarter of a century, but if an accurate comparison were possible it might be found that capital had gained in strength, moral and material, even more than labour. But the real significance of the foregoing facts lies not so much in the changed relations of labour and Capital which they indicate as in the new economic standards which they set up and in the new light they throw on economic problems.

The economic history of the past century would need to be largely rewritten in order to adjust it to the social and industrial doctrines of our own day. Gigantic a task as this would be it might well be worth the effort. One valuable result of it would be a more thorough check on the vapourings of social idealists and revolutionaries than could be obtained by any other means.

CHAPTER I.

THE FIRST SHOCK.

READERS of war history expect it to be written in picturesque and heroic language. There must be nothing common place or conventional about it. We are supposed to "plunge" into war and to make a terrible splash at the start. We march with drums beating and colours flying. For the City a financial crisis has to be introduced and thrilling scenes have to be depicted in Lombard Street. But the world war of 1914-1918 was not at all that sort of drama. We did not "plunge" into it. We slipped in and did not realise for nearly a week that we really were in. Germany, Russia, Austria and France had been in for several days before we joined them.

The absence of plunging and financial panic was particularly noticable in the City. Half a century earlier there would have been much more commotion about an outbreak of war. A celebrated banker of a preceding generation, when being examined before a Select Committee on the Bank Charter of 1844, painted a very lurid picture of the first shock. The stock of gold in the Bank was to be immediately locked up. Bills would no longer be negotiable in Lombard Street. Employment would have to stop as there would no longer be money enough in circulation to pay wages. For years to come it will be a marvel how everything happened so differently in 1914. Evidently a great improvement had meanwhile taken place in the machinery of war finance.

Another remarkable change has to be noted. The daily record of the world war of 1918-19 is much fuller and more detailed than that of any previous war. The City end of it was for the first time fully and vividly chronicled. In addition to the daily reports of many capable City Editors, there were innumerable criticisms on current events, public and private, official and unofficial. The five big banks which now controlled the London Money Market had recently made a great advance in the direction of publicity, which resembled a sudden rush of light into dark corners. They were now publishing financial reviews of the month, which soon proved themselves to be of great educational as well as practical value. In banks, finance houses, stockbroker's offices and other places there must be lying about the most varied materials for a picture of the City in the anxious days when its fate and that of Europe hung in the balance.

The transformation from peace to war had been very quiet, but it was complete. Every street, every lane, every court, had undergone a subtle change. Every office, warehouse and workshop was pervaded by a new atmosphere. The busy brokers of yesterday had turned recruiting agents. Wealthy men were organising new regiments. Clerks were rushing off to volunteer. Firms with half a dozen partners and a large staff were soon reduced to a senior partner, two or three girl typists and an office boy. The banks and insurance companies decorated their walls with "Rolls of Honour" in gold letters showing how many of their men had gone to the front. The greatest event of the day was a visit from Lord Roberts to some of the recruiting stations. Twice I met him being escorted through Throgmorton Street by a crowd of enthusiastic admirers. Not many weeks before I had heard him address a public meeting in the Mansion House on his favourite subject—National Service. The great hall was not more than half full, and the

audience was not particularly responsive. A few weeks later he had paid his last visit to the Army in Flanders, and what would we not have given then had his warnings been taken to heart in time.

In glancing over my "Armageddon Notes," I find some snapshots of the City in war time, which may be worth reproducing.

June 28th, 1914 (Sunday).—The Archduke Francis Ferdinand and his Consort assassinated at Serajevo (Bosnia).

June 29th.—On the following day (Monday), along with the reports of the assassination, the morning papers contained unusually long accounts of the money and stock markets as they had closed on the preceding Saturday. These were generally speaking favourable and some of them indicated a decided tendency to rally from the severe depression of the preceding weeks. There was an active demand for money and the Bank of England was doing a large business in loans for a week at $3\frac{1}{2}$ per cent. The day to day rate was only $1\frac{1}{2}$ per cent. Discounts were weakening and three months fine paper could be done at $2\frac{1}{4}$ to $2\frac{5}{16}$ per cent. The Bank Rate had been 3 per cent. from January 29th.

June 30th.—The monthly settlement in Consols opened as usual. They lost a fraction of the substantial advance they had made during the month, but they were still steady at 75. "Colonial Scrips" or new issues were being freely taken off the hands of the underwriters. Home Railways were firm notwithstanding a complete dearth of business. American stocks had rallied on the Saturday under a strong lead from Wall Street. Canadian Pacifics were particularly strong at close on 200 and the buyers can have had little suspicion of the tremendous slump that awaited them. On the 27th June they were done at 198 and on the 30th July—the last day the House was open—they closed about 160. In

the same month Grand Trunks dropped from 17 to 12 and Third Preferences from 38½ to 26. The principal features of the foreign market were the activity of the Russian stocks, and the firmness of Chinese, due to Dr. Morrison's eulogy of Chinese credit delivered at a special meeting of the Chamber of Commerce. Oil shares were in request, but Rubbers still remained dormant.

July 7th.—A good idea of the financial situation which had now arisen may be gathered from the questions which were absorbing public attention. On the domestic side the most important were the Ulster crisis, the Budget and the new taxes. On the Continent the impending French loan was the chief event of the day. It was confidently expected to relieve the acute congestion into which the Paris Banks had drifted through over financing their Balkan clients. Instead of that it had a precisely opposite effect. Though nominally subscribed many times over it was in reality badly placed and the issue had no sooner been made than the Paris Bourse suffered a worse break than ever. Heavy and persistent selling of the new loan was one of the chief causes of the world wide breakdown which soon followed.

The Americans, both North and South, contributed their full quota to the crisis. Canada, the United States, Mexico, Brazil, Argentina and even Chile, had all troubles of their own, which monopolised their attention. Far from being able to stretch out a helping hand to Europe they required European help. Had any of them been able to render even a moderate amount of assistance the ordeal that the City had to go through might have been both mitigated and shortened, but they were so much deadweight on the overstrained machine. True, New York had sent a large amount of gold to France in the earlier months of the year, which was doubtless useful to the French

war chest later on. But that had only a momentary effect, and probably it aggravated the subsequent deadlock. If it was of any help at all to London it must have been in the financing of the British Expeditionary Force during the French part of the campaign. No doubt a considerable part of its local expenditure would be negotiated through the Bank of France, and thus we may have benefitted indirectly from the huge stock of gold which the Bank had accumulated beforehand. But no such direct help as Paris willingly rendered to us in previous crises was this time available.

July 13th.—The diplomatic prologue to the war lasted exactly a month, namely, from June 28th, the date of the Archduke's assassination to Austria's declaration of war against Servia on the 28th July. Russia began to mobilise on July 31st, and on August 1st Germany invaded Luxembourg. For a fortnight or rather more the negotiations between Vienna and Belgrade proceeded very quietly. Not until the middle of July were the Bourses at all affected by them and only in the following week did references to a Near Eastern crisis begin to figure in stock market reports. The earliest of them appeared in the *Times* of July 13th, but it was by no means alarmist. "Operators," it said, "were unfavourably impressed by the news from the Near East, the continued flatness of the Vienna Bourse due to the very great tension between Austria and Servia giving rise to some anxiety."

July 18th.—This was mentioned, however, only as one incident among many in the general depression of stocks. It was coupled with the foreign exchange crisis in Brazil and bad crop weather in the Argentine as causes of increasing weakness in prices. The usual ebb and flow of speculative sentiment followed. A few days later Vienna advices became more hopeful, so much so that Ulster again overshadowed Servia as a danger point. On the 18th July we read again in the *Times*

that "the more hopeful reports as to Austro-Servian relations and the pacific speech of the Hungarian Premier helped the Bourses a little." This optimistic view prevailed up to the presentation of the Austrian Note to Servia on the 23rd July. A City article written that very day represented the Ulster bogey as causing greater anxiety than the Servian one. It said, "The tone was depressed throughout, operators taking a very pessimistic view as to the outcome of the conference on the Ulster question. On the other hand there was a disposition to regard the outlook in the Near East as being somewhat more hopeful."

In political circles there was as yet no sign or even a suggestion of danger. On the 16th July Count Tisza, the Hungarian Premier, delivered a speech in the Chamber which, according to the *Westminster Gazette*, "dispersed many of the wilder rumours that caused panics among excitable people this week." His significant hint that "war is a sad *ultima ratio*," was lightly passed over with the reflection that "all the Great Powers were determined to avoid these complications." "Russia," it said, "had no motives for inciting Servia to take up an impracticable attitude. Austria-Hungary has every motive for not offending her own Serb population by making harsh and unreasonable demands upon Servia. Germany, we may be sure, will do her utmost to prevent a Slav and Teuton quarrel arising out of this incident. We look therefore for a concerted effort to localise this trouble and assuming a reasonable degree of prudence and goodwill on both sides we hope it will not be necessary even to discuss the sad *ultima ratio*." Doubtless these hopeful phrases faithfully reflected the sentiments which then prevailed at the British Foreign Office.

In those fateful days, while the storm was brewing, our bankers were as unsuspecting as our diplomatists and politi-

cians. A world war was one of the last subjects in their thoughts. Their minds were, indeed, concentrated on something quite different. For years they had been cogitating a scheme to form a panic-proof gold reserve. The Clearing House Committee, which had been entrusted with that important task had almost, if not quite, finished its labours. Its report was about to be published and in banking circles a great reception was anticipated for it. At the recent bank meetings it had been foreshadowed by various chairmen. Mr. F. A. Bevan, in addressing his shareholders, said there was some hope that with the concurrence of all parties concerned, the Bank of England, as well as the bankers generally, some arrangement might be arrived at which would ensure a larger holding of gold in case of crises, whether at home or abroad." With growing confidence he added that "they were anxious to ensure a state of things which would make the community feel perfectly secure should crises occur."

Mr. Bevan had little thought what sort of an ordeal our banking system was soon to be subjected to. If he had had he might have spared himself his rather unfortunate praise of the Bank Charter Act. Though it had been thrice suspended—In 1847, in 1857, and 1866—even the latter year, he said, was a long time ago and since then there had been no suspension. He concluded with the often expressed, but still rather indefinite hope that some scheme would result by which the country would continue to be the leading commercial centre of the world and as hitherto the only free market for gold."

Even those who cannot share Mr. Bevan's devotion to "the only free market for gold" will cordially recognise the vital service which City bankers rendered to the nation in thus strengthening their gold reserves so opportunely on the eve of the unforeseen crisis. Like our naval mobilisation our monetary mobilisation was effected at the nick of time. We may have

it partly to thank for the comparative calm with which Lombard Street approached the impending disaster. Right up to the fatal morning, when the Stock Exchange had to be closed (July 31st), there was hardly a ripple on the Money Market. The Bank rate, which had been lowered at the end of January, to 3 per cent., remained there until the 29th July, when it was raised to 4 per cent. In the corresponding period of the preceding year (1913) the ruling rate had been $4\frac{1}{2}$ per cent.

At the middle of July money was easy, and the outlook for the autumn was favourable. There was little competition for the new supplies of gold, a large share of which passed into the Bank of England. Day to day loans were $1\frac{1}{2}$ to $1\frac{3}{4}$ per cent. and weekly fixtures about $1\frac{3}{4}$. Discounts for 60-day Bank bills were 2 per cent. and 90-days $2\frac{1}{8}$; fine trade bills, 3 months, $2\frac{3}{4}$ —3 per cent., and 4 months, $3-3\frac{1}{4}$ per cent. These easy conditions continued until the 17th July, when the Bank of France resumed its precautionary imports of gold. London was suddenly called upon for a round million (£1,000,000), and was able to supply it without troubling the Bank of England. The other precious metal—silver—so far from causing any difficulty was a weak market. India and China were selling freely, and the price was falling both for cash and future delivery. During the week ended July 17th, it dropped from 26d. to $25\frac{1}{4}$ d. per ounce, and made a new low record at $25\frac{1}{16}$ which had not been touched since January, 1912. Neither were the foreign exchanges as a rule unfavourable with the exception of Paris, which had artificial causes for weakness. The New York rate had been relieved by the large exports of gold to Europe made earlier in the year and during the first half of July it still tended downward. Then another spasm of tightness came on and was in full force when the war crisis opened.

July 25th.—The day after the presentation of the Austrian

Note to Servia (July 24th) saw a wave of depression spread over all the stock markets of the world. Not one of them escaped it, and very properly the Berlin Bourse was the chief sufferer. It was completely demoralised, and from the opening to the close stocks were wildly offered without finding buyers. As the day advanced selling orders poured in from the provinces but could not be executed. The large banks which hitherto had been counted upon to prevent an utter breakdown of the market left it on this occasion to its own resources. No supporting orders came in from high quarters, and the day ended in utter demoralisation.

Paris had a similar ordeal to go through, but it was less severe, and its evil effects were not so widespread as in Berlin. Its chief features were a drop of 2 per cent. in Rentes, and a sharp slump in the new Three and a half per cents. The latter had been launched a few weeks before with a great flourish of trumpets. It was said to have been subscribed for scores of times over which did not prevent it soon going to a discount. As the price fell sales increased with suspicious rapidity—a sure sign that the subscriptions had been largely speculative and that the stock was not well held. It acted as so much extra dead weight on a feeble and nervous market. In other stocks there were also large positions open, notwithstanding the persistent liquidation that had been going on for weeks past. Not only were these liquidations continued, but they became more and more urgent. Paris had indeed a gloomy day.

Wall Street was ill-prepared for the Austro-Servian bomb. At the moment of its being launched and before the fact had become known even in diplomatic circles, American conditions had changed sadly for the worse. Gold exports were being reduced and sterling exchange was again rising. The railroads were issuing bad statements as to their gross and net earnings in June. The passing of dividends by weak

roads like the Chesapeake and Ohio was again being talked of. Strikes were threatened in the West and North-West. The Crop news was less favourable than it had been—especially from Canada. Anti-trust legislation had broken out afresh at Washington, and the new banking law was meeting with unforeseen obstacles in practice. Coming on top of so many domestic worries the Servian incident was decidedly disconcerting.

London bore up against this crowning blow much better than its Continental rivals, though it had in fact double cause for depression—Ulster as well as Servia. Friday, July 24th, was the opening day of a disastrous settlement in which enormous differences had to be met. Among the thousands of active stocks hardly one had escaped a severe fall during the previous (end of July) account. The losers through these depreciations had a gloomy pay day on the following Wednesday to prepare for. It was certain that “hammerings” would be numerous and some of them might be serious in magnitude and effect. Such a Friday could not fail to open badly. Already it was being compared with the memorable Black Friday of the Overend Gurney crisis (1866). According to the *Times*, “All sections of the Stock Exchange opened in a very depressed condition on the news of the presentation of the Austro-Hungarian Note to the Servian Government, and gloomy forebodings with regard to the outcome of the conference of party leaders at Buckingham Palace. Early advices from Paris indicated that the market there was in a condition approaching panic and the other Bourses were very flat.”

July 29th.—Capel Court did not, however, abandon itself to unrelieved gloom, like the Continental Bourses. It remained fairly good in spots. There was a fair amount of investment buying in home railways. Consols were comparatively steady. Mexican railways benefited by the prospect of a

speedy end to the revolution—a prospect which, unfortunately, has proved illusive. Lombard Street had not as yet been drawn into the maelstrom and money was still easy. True 3 months bills were done on the Friday at $2\frac{5}{8}$ per cent., but that was the low water mark. As the shadows of war deepened discounts grew harder until the next black Friday (July 31st), when the Bank of England had to raise its official minimum to 10 per cent.

A financial crisis is always attended by paradoxes and anomalies. The American market naturally gets its full share of them, and it did on this occasion. New York was the most perplexing of all the financial centres. It produced the greatest number of surprises and disappointments—especially disappointments. On the first Servian Black Friday (July 24th) it gave the *coup de grace* to terror-stricken markets. New York cables describing that day's business, said, "The tone of the market has been poor from the start, and gradually the weakness increased with sharp dealings throughout the list closing about the lowest of the day." If New York had been in a normal condition instead of joining in the debacle and knocking down its own stocks it would have seized the opportunity to buy them at the lowest prices they have touched in the past twenty years. Even after the London Stock Exchange closed and record bargains were to be had in Throgmorton Street, there was little or no buying for New York. On the contrary there were frequent cases of refusal to take delivery of stocks which had been previously bought. This was an aggravating factor in the deadlock which persisted month after month, with very little visible effort of the high financiers to relieve it.

July 30th.—After the delivery of the Austrian ultimatum (July 23rd), events advanced very rapidly—so rapidly indeed that each succeeding day produced a fresh sensation. On the 24th July Servia answered the Note and next day the Austro-

Hungarian Government declared the reply unsatisfactory. On the 27th Sir Edward Grey made his desperate attempt at mediation—the only one, by the way, that was made by any Neutral Power. He proposed that the four neutral Powers not immediately interested in the conflict should endeavour to arrange a settlement. But Austria cut that proposal short by declaring war on Servia next day (July 28th). On the 29th Europe found herself on the edge of the abyss and Berlin was again the first to lose its head.

On the Berlin Bourse an ominous succession of failures set in. One of the best-known bankers in Thuringia committed suicide in his office. The Reichsbank was again crowded with people changing notes for coin, chiefly gold. It had become evident foreign countries, notably France, were withdrawing capital from Germany. The only business done on the Bourse was in foreign exchange, rates on London being again considerably higher. Cheques on London ruled 20 marks 62 pfennigs in Berlin and 20.67 in Frankfort, the latter an unprecedented figure.

Rumours of a Russian Ukase calling out reservists and general expectation in Germany of early mobilisation. The great cities begun to lay in provisions in view of the railways being taken over by the military and closed to private traffic. The municipal authorities of Berlin had for some days been buying grain and flour and bringing it in by water in order to avoid hampering the railways. It was calculated that a million tons of grain would have to be imported in order to keep the country going for a year. But the home supply was unusually good, both the corn and potato crops being excellent. The rye crop surplus exported in ordinary years to Russia would now, of course, be kept at home.

CHAPTER II.

THE COLOSSAL WAR BILL.

THE world war of 1914-1918 transcends all the measures and standards of comparison which the human mind is capable of grasping. All we can think or say about it must be to a large extent mere words. The greatest mathematician ever born will try in vain to form a practical conception of it. The most skilful statistician alive cannot put in plain language its economic significance. Moreover, the tremendous reckoning is not yet closed. The war goes on unofficially, and in some form or another may drag out for years. Whole decades may have to elapse before the final accounts are made up.

The number and variety of estimates of the cost of the war up-to-date that have been published are simply endless. They had carried it over fifty thousand millions when the Armistice was signed, which would make an average of fully thirteen thousand millions a year for the period of the war. The extensive demobilisations since carried out have doubtless greatly reduced the enormous volume of expenditure, but the most liberal allowance for that can hardly have put it lower than one half of the war rate. If so, the awful waste of the world war may be still piling up at the rate of millions sterling a year. Our own share of it, according to the recent Budget estimates, will be 1184 millions for the current fiscal year.

This huge mountain of war expenditure rearing its head

in impenetrable clouds, presents many points of special interest, as for instance :—

The respective shares of the two groups of belligerents—the Entente and the Central Powers.

The respective totals of the individual belligerents.

The proportion of each belligerent's expenditure (1) to his national income ; (2) to his estimated national wealth ; (3) per head of the population ; (4) the respective amounts raised by taxation and by borrowing. These important details as they were supposed to stand at the end of 1919 are shown in the subjoined table, which was published at the time by the Mechanics and Metals National Bank, New York :—

	Gross debts growth from Aug. 1, 1914, to Jan. 1, 1919, omitting 000,000.			Estimated Annual Income, omitting 000,000.	Annual Incomes spent on the War.	Spent on the War per head of popula- tion.
	£			£		
United States	4,000			8,000	0.5	43
Great Britain	7,300			2,400	3.0	162
France	4,700			1,500	3.2	117
Russia	4,480			1,400	3.2	26
Italy	1,840			850	2.2	52
Entente Nations ...	22,320			14,150	1.57	58
Germany	6,960			2,200	3.1	99
Austria-Hungary...	4,060			1,000	4.0	81
Teutonic Nations...	11,020			3,200	3.44	91

Measured by national income Austria-Hungary had come off worst, having incurred war debt equal to four years' income. Great Britain, France and Germany had fared about equally their war debt having averaged roughly three years'

income. Compared with the European belligerents the Americans had so far escaped very lightly. In contrast with their spectacular loans their actual expenditure had been very moderate. (The 0.5 in the above table means a half year and Great Britain's 3.0 means three years). The two most significant figures are the 1.57 years of the Entente Powers, and the 3.44 years of the Central Powers indicating that the war had cost the latter fully twice as many years' gross incomes as it had cost the former.

But the most direct test of the financial damage caused by the war is to be seen in the final column of the table—the expenditure per head of the population. It was only too certain that Great Britain would have an unenviable lead in a comparison of this sort, but the length of it is even greater than our worst anticipations could have suggested. Our £162 per head of the population is nearly three times as much as the aggregate average of the Entente Powers, which is only £58. We are even £45 per head above the French average and are £2 per head more than the French and American averages combined—a sinister tribute to the spending powers of the British politician.

The earliest official estimate of the total cost of the war was presented to the Senate Committee of the United States by the officials of the State Department attached to the Peace Conference. It put down the military expenditure at between 40,000 and 50,000 millions sterling not reckoning the value of the property destroyed. Of this huge amount fully one-fourth or about 10,000 millions had been found by the British Treasury. This important fact has not been impressed on the outer world so firmly as it should have been. Instead of advertising it widely, as they ought to have done, our over modest Ministers took pains to conceal it.

A more moderate estimate was made by Mr. Joseph

Kitchen, a skilled and exact statistician. He put the direct war costs of the Entente Powers at 24,845 millions sterling ; their pre-war debt at 4,565 millions, and their post-war debt at 25,550 millions. On a 5 per cent basis the post-war interest charge will be 1,270 millions a year against a pre-war charge of 170 millions. The war costs of the Germanic Powers he puts at 14,070 millions, and their post-war debt at 14,650 millions. The interest charge he calculated at 776 millions a year against 54 millions before the war. Combining the two sets of expenditure and debt we obtain :—

Grand Total War Costs	...	£38,915,000,000
Do. Post-War Debt	...	40,000,000,000
Do. Pre-War Debt	...	5,775,000,000
Do. Interest Charge	...	2,046,000,000
Do. Pre-War Charge	...	224,000,000

Another view of our war costs is furnished by the weekly abstracts of expenditure published by the *Economist* during the progress of the war. These ran up at the end of June, 1920, to the gigantic total of 11,479 millions sterling (in exact figures, £11,479,218,257). Of this 7,146 millions was raised by loans and 4,332 millions by taxes ; that is, 62 per cent. by loans, and 38 per cent. by taxation. The *Economist* thus gave in its own columns a very conclusive answer to the fiscal Jeremiahs who, all through the war, clamoured for more and more taxation. A total of 4,332 millions in five years is 866 millions a year or an average nearly £20 per head of the population of the United Kingdom. The 7,146 millions sterling still to pay represents a future burden of £155 per head. And yet the "bleed 'em white" taxers are not content ! The truth is that pounds, shillings and pence give a very vague idea of the loss the world sustained through the world war. A clearer and more definite conception of it can be obtained from the gruesome catalogue of casualties.

A great deal of reticence has been shown on the subject of the British war costs. Even the financial journals have interested themselves very little in it. Nearly all our information up to date has been derived from casual passages in Budget speeches or in Ministerial answers to questions or in reports of Committees of Inquiry. Even qualified critics hesitate to attack so complex and confusing a question. A rough idea of the grand total may be derived from the Votes of Credit passed by the House of Commons. They began on August 7, 1914, and ended on March 31, 1919. They were thus summed up by the Committee on Public Accounts in its third report, presented to Parliament on the 5th August, 1920 (No. 182).

The gross expenditure from such Votes during the whole period amounted to £8,417,178,490. Deducting a sum of £130,904,378 in respect of receipts the total of net expenditure becomes £8,286,274,112. If we except a payment of about sixty millions for miscellaneous services the remainder of this net total falls under twenty heads, by far the largest being those for the Army, Ministry of Munitions, Loans to Allies and Navy—*each of which sums runs into ten figures*. The Ministry of Shipping, Railways, Air Ministry and Ministry of Pensions come next in the order stated. The above mentioned total may be regarded as showing in a general way the cost of the war subject to the qualification that it does not allow for assets to be realised in future."

Financially the most fatal error was the decision of the House of Commons to give the Government a free hand at spending by means of Votes of Credit. It was worse than a mistake. It was little short of a political crime. Thirty years before a wiser and more experienced House of Commons had formally condemned the Vote of Credit system of emergency finance and its warning was signally justified. If it had not been that three-fourths of the House of Commons could plead

financial ignorance, every member who supported the Vote of Credit proposal ought to be impeached. But whether or no he will go down to posterity with a very bad mark against his name. As for the Ministers who asked for these extravagant powers and then proceeded to make the worst possible use of them they should be *anathema maranatha* to all loyal citizens. They are personally responsible for the eleven thousand millions of war expenditure and for the eight thousand millions which we have still to pay. House of Commons' laxity—laziness might be a more appropriate word—and Ministerial prodigality not only wasted thousands of millions of hard-earned money, but destroyed our whole economic system, deranged the distribution of money and goods, upset all the old standards of value, inflated prices and doubled the cost of living. To the unrestrained Votes of Credit I attribute not merely the extravagance of our war expenditure, but some of our worst military failures.

While wild spending seems to have been the rule all round, some Departments particularly distinguished themselves in the race. But the indisputable champion was Mr. Lloyd George's own god-child, the Ministry of Munitions. It originated in a paroxysm of public alarm about the shortage of shells at the front. It took over the old Ordnance Department, which before the war had been limited to an expenditure of about half a million a year. When the Ministry of Munitions was created the Ordnance Department had given out contracts for high explosive shells, which reached the Army long before the Lloyd George shells, and which private contractors could have turned out faster than he did had they been given a free hand.

The Munitions Ministry, having got its hand in, became an Aaron's rod which swallowed up all the other rods. It took charge not only of the guns and shells, but of military

stores generally. It absorbed other Departments faster than it could find houseroom for them. It gathered round it a motley army of experts and supermen, who frequently proved to be either rank duffers or impracticable cranks. It had loads of work transferred to it from the Admiralty and the War Office, among others the administration of raw materials from the Surveyor General of Supply. Very possibly the Surveyor General's Office was considerably out of date, and its methods somewhat archaic, but the Ministry of Munitions re-organised it with a vengeance. It collected a staff of Controllers, Directors and Directors General for the various branches of its universal activities. A State monopoly of raw materials was set up in eight divisions under a :—

Director General,
Controller of Wool Supplies,
Director of Wool Textile Production,
Leather Controller,
Flax Controller,
Controller of Raw Jute and Hemp,
Controller of Flax and Jute Goods,
Director of Raw Materials' Finance.

Business men of high repute were selected for these positions, and the Director General in his final report says of them :
“ Any success that has been achieved is due to their harmonious co-operation, to their untiring energy and to the tact with which they handled the intricate problems, on the correct solution of which so much depended.” If indeed they had a fault it was not lack of energy, but excess of it. Being energetic business men with unlimited command of capital—thanks to the Votes of Credit—what more natural than that they should launch into gigantic operations ending in proportionate gains and losses. In their last year they absorbed about one-half of the total expenditure from the Votes of Credit—

say, £2,301,962,918. The Committee of Public Accounts specify some of the principal items in order "to indicate the enormous scale of their operations."

WAR TRADING OPERATIONS, 1918-19.

Ministry of Food (Purchases, Storage, Freight and other expenses)	£352,585,745
Wheat Commission (Purchase of Wheat and other Cereals)	312,288,942
Loans to Dominions, Allies, etc.	264,575,684
Purchases of Colonial Wool	83,016,055
Board of Trade (Purchase of Food Supplies)	72,003,894
Railway Agreements—Payments to Execu- tive Committee	48,610,564
Sugar Commission (Purchase of Sugar) ...	41,582,813
Timber Supplies (Purchase and Conversion by Board of Trade)	22,966,814
	<hr/>
	£1,197,630,511

Twelve hundred millions sterling in a single year outside the proper expenses of the Army and Navy. The Director General of Raw Materials sets out the details of a gross profit of £38,720,000 realised by the Department during its brief existence of two years (March 31, 1917, to March, 1919). The most bare-faced profiteer was the Wool Control. It confessed to the Committee on Public Accounts that it had made £6,833,000 off Home wool and £25,424,000 off Colonial wool. But the latter was subject to rebates and claims to participations in profits. These profits were, however, not real profits, but only taxes in disguise. They were made off the public by charging monopoly prices. In the case of export coal they were made off the French and Italian importers. Revelling, as they did, in Vote of Credit money, the Controllers of Raw Materials could make any amount of profit they liked

If any further evidence were needed of the mad extravagance of the British military administration it is furnished in superabundance by the mountains of war materials and supplies which were left over from the war. France was crowded with dumps containing millions worth of aeroplanes, motor cars and machines of every conceivable sort. Valuable stores were heaped together indiscriminately and left rotting in the sun and rain. Committees of the House spent years in unearthing dump scandals. Scores of different accounts had to be opened for them, and many strange freaks of book-keeping were perpetrated in them. Eighteen months after the Armistice the Chancellor of the Exchequer had still on hand miscellaneous assets, which he valued at 700 millions sterling. They consisted of :—

Ministry of Munitions—

Surplus Stores and Raw Materials	...	£355,000,000
Repayments due from Allied and Associated Governments		39,000,000

Ministry of Shipping—

Sale of Ships and Shipyards and Repayments due from Allied and Associated Governments		37,000,000
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Board of Trade—

Stocks of Timber, Meat, Flax		22,500,000
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Ministry of Food, Wheat and Sugar Commissions		60,000,000
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War Office—

Cost of Armies of Occupation		45,500,000
Repayments due from Dominions	...	37,500,000

Admiralty—

Repayments due from Dominions and Governments Associated		1,500,000
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Treasury—

Premortgage Bill Advances, dollar adjustments and other cash balances		82,000,000
Coal Deficiency Advances		20,000,000

£700,000,000

The munition operations were so enormous that a small percentage on them ran into millions. In the two years ended March 31, 1919, they amounted to £221,687,000, and in their third and last year they totalled £179,412,000. And the Controller's profit of £38,720,000 was only the beginning of the "ramp." The successive hordes of speculators who came after the Controllers all got, doubtless, very substantial pickings. Therefore, to our 4,332 millions sterling, which, according to the *Economist*, was raised by taxation, should be added probably 2,000 millions of which the public were fleeced by controlled and inflated prices. The worst of these prodigalities were perpetrated in cold blood, and one might almost say with malice aforethought. Wild spending can be forgiven to armies in the field or to fleets in the deadly presence of an enemy. Every moment they have serious risks to run and perils to guard against. There is no time for counting cost or for practising economy. But the Ministry of Munitions was in quite another case. It had ample leisure for reflection. It had time to think and to mature its plans. It had millions of men and women at its command, all ready and willing to carry out its behests.

Its first duty was to get the guns and the shells. Its second duty was to pay fair prices for them and no more than fair prices. Instead of limiting itself to its proper sphere, it launched into unheard of speculations and adventures, to which must be ascribed a large share of the cost of the war. The millions that were honestly spent at the front no one would grudge for a moment, but the millions wasted on foolery, knavery and profiteering will always be a sore spot in our memories of the war. And when we arrive at a true perspective our money losses will seem the smallest. Far more serious for us will be the moral and physical damage the country has sustained. It can no longer be denied that

the British race has suffered and is still suffering deterioration through the war. Only one of our political institutions has come through the ordeal triumphantly, and that is the Crown and the Royal Family. The House of Commons has lost nearly the last shred of its declining reputation. The Cabinet has shrunk into a one-man show. The commercial community has become nervous and bewildered. "Organised labour" is making itself ridiculous by trying to play at high politics with international gaol-birds.

The physical losses of the war have, perhaps, been too lightly forgotten. They varied greatly among the different belligerents. Servia and Roumania were the hardest hit, and after them France. Great Britain and Italy were nearly equal, while Germany came out about half way between the British and French. Counting the temporary loss of production through the millions of men withdrawn for five years from peaceful industry: the permanent loss of production through millions killed or wounded: the enormous destruction of factories, machinery, tools and instruments of industry: the damage done to railways, roads and other channels of communication: the spirit of unrest and unsettlement, which spread all over the world: it would seem almost as if humanity had been thrown back for a whole generation, if not more.

Statisticians estimate that the Entente Powers mobilised about twenty-five millions of combatants and the Central Powers twenty-two millions. The proportions of their entire population mobilised ranged from 4 per cent. in Greece to over 20 per cent. in France. They were respectively:—

ENTENTE MOBILISATIONS.

	Number	Percentage of Population.
France	9,717,000	20.4
Great Britain ...	5,704,000	12.6
Italy	5,250,000	15.2
United States ...	3,800,000	4.2
Greece	200,000	4.0
Roumania	800,000	10.0

As far as can yet be ascertained, the Central Powers mobilised about twenty-two millions of combatants. The percentages these formed of their total population were, however, considerably larger than in the case of the Entente Powers with the exception of France. It is interesting to note that the French and German percentages of population were very similar, namely, German 19.8 and French 20.4. The percentages of Germany's Allies were as follows:—

MOBILISATIONS OF THE CENTRAL POWERS.

	Numbers Mobilised.	Per Cent. of the Population.
Germany	12,870,000	19.8
Austro-Hungary	7,228,000	13.9
Bulgaria	600,000	10.0
Turkey	2,000,000	10.0

That the British should have mobilised nearly as large a proportion of their population as either the Austrians or the Italians is a circumstance worth noting. Even more remarkable is it that their casualties in proportion to population

nearly equalled those of the Germans. The following tables give the figures for both groups of hostile Powers :—

ENTENTE CASUALTIES.

		Numbers		Percentage
		Killed and Missing		of Population.
France ...	...	1,398,000	...	3.37
Great Britain ...	...	680,000	...	1.5
Italy ...	...	469,000	...	1.32
United States ...	...	122,000	...	0.23
Belgium	...	44,000	...	0.6
Greece ...	...	12,000	...	0.15
Roumania	...	400,000	...	5.0
Servia ...	...	369,000	...	12.3

CASUALTIES OF THE CENTRAL POWERS.

		Numbers		Percentage
		Killed and Wounded		of Population.
Germany	...	1,700,000	...	2.6
Austro-Hungary		—		—
Bulgaria	...	—		—
Turkey ...	...	500,000	...	2.5

Ghastly figures all of these, and cruel ironies on the ideals of Socialist financiers, which so far have defied even the most heaven-born Chancellor of the Exchequer to realise. It is to be feared that we are drifting farther and farther from the possibility of realising them. Both the assets and the liabilities of the nation are multiplying at a rate which it is impossible for ordinary taxpayers to follow. Not only do they grow beyond measure, but they become infinitely varied and diversified. Our liabilities in particular are cosmopolitan, being literally scattered all over the commercial world. They have assumed

many different forms and are payable in many different currencies.

The national assets are more concentrated, but they too have complications of their own. Many of them are of a most controversial character. Though we pride ourselves on our monetary standard and measure of value its special merit is to a large extent imaginary. A pound sterling, which loses 40 per cent. of its purchasing power in the brief period of five years hardly deserves to be praised for its steadiness and uniformity. But the pound sterling has something to say in self defence. A monetary system which was planned and organised to carry on a business of, say, a hundred millions a year, cannot be fairly blamed for not being equal to a turnover of thousands of millions. Still less can it be reproached for not quickly adapting itself to new developments of commerce and finance, especially when these take a vast range never dreamed of in its early days.

Previous to the present generation the national currency had very little call upon it beyond the exchange of commodities and services. In our own time we have seen many new and strange functions imposed on it. Trade has shrunk into a comparatively small item in its manifold activities. It has been completely eclipsed by banking operations and what are comprehensively styled creations of credit. As money-making materials these may be very prolific, but they are not to be classed as assets with land, houses, manufacturing plant and other substantial property. An essential distinction exists between the national assets of 1816, which consisted mainly of solid assets and those of to-day which are largely composed of artificial and conventional values. It is particularly significant that the primary and most important assets of all are practically the same at both dates, 1816 and 1919. The area of the United Kingdom is to-day as it was a century ago, about 121,000

square miles, or $77\frac{1}{2}$ million acres (Great Britain, 56,801,561 ; Ireland, 20,734,124 acres). Just previous to the war only one-half the acreage was being cultivated (Great Britain, 31,834,000 ; Ireland, 14,719 acres) probably a smaller proportion than that of a century ago, but certainly no larger.

Whatever may be the scientific defects of an economic system, everything that is built up on it must be affected by them. The two schools of economics which have been at war with each other from time immemorial—the Individualist and the Socialist—find their most exciting arena in finance. In this sphere they come to closest quarters and the issues between them are most passionately contested. When a nation-wide group of trades unions throws down the glove to the most powerful capitalists the world has ever seen, it may be assumed that tremendous consequences are likely to result. The issues involved will cleave society down to bedrock.

It has been mentioned that all the monetary elements were more or less upset during the war. Not the least important disturbance was the silver boom which started in the early days of the war and continued to the end of it. In the space of three years it doubled the liabilities of gold using countries to silver using countries. This aggravated the currency difficulty by increasing the cost of all British imports from the East, while it diminished the profits of British enterprises and investments in those countries. The British producer seemed to be hard hit all round—in his home labour, his foreign labour, his imports and exports, his currency and his taxes.

CHAPTER III.

FROM WAR TO PEACE.

The greatest disappointment of the war was the return of peace. It came suddenly like the outbreak of the war, and found us equally unprepared. The Armistice, instead of bringing with it the long expected relief from war cares and anxieties, seemed only to plunge us into a fresh crop of them. In any case the transition from war to peace would have been a tremendous task—far more so than the farthest sighted among us anticipated—but it had been rendered doubly difficult by the false hopes and optimist prophecies with which the people had been fed up by glib politicians and financiers. Slowly it dawned upon them that they were entering on a new revolutionary era.

A world-wide revolution is now running its course from which an entirely new order of things is likely to emerge. From the most superficial to the most fundamental conditions of human life all will be more or less changed. New religions, new sciences, new political and economic systems are springing up around us. The hundred years of re-organisation which succeeded the Napoleonic wars can give us only a faint idea of the social upheavals and convulsions which our own generation may have to go through.

A millionaire statistician—not one who owns millions, but who deals in them figuratively—recently announced as an

important historical discovery that great wars are generally followed by spells of extraordinary prosperity. It might have been more correct to say that they are often accompanied by such periods of prosperity. And without looking very far into them it may be seen that the phenomena are natural and even inevitable. The more costly the war is and the more extravagantly it is financed the stronger is likely to be the boom. However puzzling this may be at first sight, on second thoughts it becomes plain enough.

Before a country gets plunged into war it may have been leading a very frugal, quiet and humdrum life. All of a sudden it may have to double or triple its expenditure. May even have to increase it tenfold as happened in the late war. Floods of new money flow into all the channels of commerce. Prices have to be put up, wages to be raised, profits to be increased. A continuous round of incomings and outgoings keeps all the banks active. The only limit to it is the physical power to handle the business. This kind of over-prosperity can be carried on to almost any extent, but it is liable to end with the war which created it. If it lasts much longer it can only be because war expenditure is being continued (as at present) into peace times.

It is to be feared that we have no longer a choice between voluntary and violent retrenchment. Our fate is already upon us, and the time has come for a complete overhauling of the national position. Our assets will have to be re-valued on peace terms, and our industries will have to be gauged by their productive, instead of by their speculative power. Our substantial wealth will have to be separated from our theoretical wealth. In the process a large amount of writing down may become necessary. Civilisation is a great creator of artificial values. Such experiences are not new to us. This one only differs from its predecessors in its enormous magnitude and the

multitude of intricate problems it has produced. Had we been given to intelligent study of our national history we might have found remarkable parallels to it. Inflation of prices and high cost of living had been familiar long before our banking system and our machinery of credit were developed to a tithe of their present extent. But it may be observed that with the growth of credit inflation tends to become more violent and the rise in prices more extreme. The greater the preponderance of artificial wealth over primary wealth—food, clothing and housing—the stronger becomes the speculative element in prices.

OUR FIRST PEACE BUDGET, 1919-20.

It fell to the lot of Mr. Austen Chamberlain to present to the House of Commons the first peace Budget. As the war expenditure was then far from being completed it could only be an approximation to the true figures. There were still over a million men to demobilise : hundreds of millions worth of war stores to realise ; two armies to maintain in Russia and Germany, and hundreds of thousands of civilians to return to civil life. The total expenditure of the country was going on at the rate of nearly five millions sterling or only two millions a day less than it had been at the crisis of the war.

It could not be considered much of a Peace year which required 1,375 millions sterling to clear its expenses. This was fully half as much as Mr. Bonar Law had budgetted for in the last year of the war (£2,972,197,000). But there was a notable difference in the items of expenditure. The Votes of Credit with which the war had been financed disappeared from the Budget and specific sums were set against the Army, Navy and Air Forces—£287,000,000, £149,200,000 and £66,500,000 respectively. This was a nominal return to the constitutional practice of voting all money for the spending departments in Committee of Supply, but the time allotted

to supply did not allow of more than the most superficial examination of the expenditure.

If the military charges of the year were terrifying the civil charges were still more so. They showed an enormous total of £445,804,000 only 57 millions less than the cost of the Army, Navy and Air Forces. Here we find a reflection of the wild spending which characterised the Lloyd George regime at the Treasury. In 1870 the Civil Service of the United Kingdom cost under 10 millions sterling a year. When it came into the hands of Mr. Lloyd George it was still well under 30 millions. We begin the new era of universal peace with civil service charges amounting to nearly 446 millions!—forty-five times as much as they were half a century ago, and fifteen times as much as they were under the last Unionist Government. The items of this huge incubus are worth recording :—

THE CIVIL SERVICE ESTIMATES, 1919-1920.

Public Education	...	...	...	£38,841,000
Old Age Pensions	...	...	...	17,892,000
Ministry of Pensions	...	...	...	72,855,000
Insurance, etc.	...	...	...	13,435,000
Civil Demobilisation and Re-settlement				30,874,000
Loans to Dominions and Allies			...	87,500,000
Railway Agreements	...	...	...	60,000,000
Bread Subsidy	...	...	...	50,000,000
Other Civil Services	...	...	...	74,407,000

£445,804,000

These charges will, no doubt, be greatly reduced on a return to normal conditions, but that is not to be expected soon. The "Loans to Dominions and Allies" may be to some extent refunded. Mr. Bonar Law valued them at 50 per cent. of their nominal amount, which would mean a recovery of

nearly 44 millions sterling. The £72,855,000 assigned to the Ministry of Pensions is more likely to increase than to diminish during the next few years. The relief to be expected from the dying off of pensioners is sure to come very slowly, pensioners being a notoriously long-lived people. Besides, they have means of multiplying themselves, which, as the Americans have experienced defy all political safeguards. Civil demobilisation and resettlement might be regarded as a temporary expense were it not for the horde of officials who have fastened on to it and may take years to dislodge.

About one-half of the £445,804,000 may be treated as temporary expenditure, leaving £222,903,000 as permanent. This will include the £38,841,000 for Public Education (increased by £14,000,000 owing to the Fisher boom), the £17,892,000 for Old Age Pensions (which Mr. Asquith, in moving the original resolution, estimated at six millions), the £13,435,000 for health insurance (an increase of nearly four millions over 1918-19), and the £74,407,000 for miscellaneous charges of which £56,623,000 are new. In round figures 220 millions sterling is required for the civil government or rather for that portion of the civil government which is administered by the central bureaucrats in London. Were we to include the cost of local government the total would probably come to 350 millions.

Let us look at this matter by itself and without reference to any other branch of our public expenditure. The slightest glance at it will provoke the inquiry: Can we afford such expensive establishments? All but the bureaucrats themselves will say at once that we cannot. The Syndicalists know better than most of us that such a burden is far beyond the national strength. Their treasonable design is to break down the existing social organisation by means of crushing taxation.

Ministers were slow—deplorably slow—to realise the gravity

of the outlook. It was not until the last minute that they showed serious anxiety about the national solvency. The Chancellor of the Exchequer let himself go in the debate on the second edition of his 1919—1920 Budget (August 7, 1919). He there confessed to being troubled about many financial matters. He was now much less hopeful about both his revenue and expenditure than he had been when he submitted his Budget on April 30.

His Budget estimates he said would not be realised. Both sides of the account were failing to come up to his expectations. Military and naval expenditure were greater than he had anticipated. One after another large new blocks of expenditure had been sanctioned. The other day twenty millions had been voted for pensions. Then there was the increased pay for the Army and Navy, while the police would cost an extra four and a half millions. Mr. Chamberlain might have mentioned another inconvenient extra—the million voted for disestablishing the Welsh Church—had not delicate consideration for the feelings of the Prime Minister restrained him. But his whole catalogue of increases reflected directly on the Prime Minister. They had been decreed by him and in many cases had been granted on his simple *ipse dixit*. There was nothing in English history to compare with the absolute and uncontrolled power to spend public money, which hypnotised politicians had conferred on this one man.

The “ normal ” items of revenue would then be :—

Customs and Excise	...	...	...	£350,000,000
Motor Vehicle Duty	...	...	...	9,000,000
Inland Revenue	...	...	...	590,000,000
Post Office	...	...	...	58,000,000
Miscellaneous	...	...	...	22,000,000
				<hr/>
				£1,029,000,000

And the principal heads of expenditure would be :—

Interest on Debt	...	...	...	£320,000,000
Half per cent. Sinking Fund	...	...	...	32,500,000
Other Consolidated Fund Charges	...	...	...	20,400,000
				<hr/>
				372,900,000
Navy	...	...	...	£60,000,000
Army and Air Forces	...	...	...	75,000,000
Pensions	...	...	...	120,000,000
				<hr/>
				255,000,000
Civil Services	...	...	...	185,000,000
Revenue Collection	...	...	...	68,000,000
				<hr/>
				£880,900,000

The 305 millions sterling for Civil Service (including the 120 millions for pensions) is spread over seventeen different services of a more or less benevolent character. Most of them are, in fact, disguised doles :—

Old Age Pensions	...	...	...	...	28,000,000
Grants for—	<i>Million £</i>				
Education	...	...	...	70.0	
Agriculture	...	...	...	1.5	
Unemployment and Health Insurance and other Health Grants				17.5	
Police	...	...	...	10.8	
Irish Land Purchase	...	...	...	1.0	
Housing Subsidies	...	...	...	15.0	
Mental Deficiency and Reformatories	...	...	...	1.0	
Transport Development	...	...	...	1.0	
				<hr/>	117,800,000
Upkeep of Museums and Galleries	...	...	...	...	600,000
Scientific Investigation and Research	...	...	...	...	600,000
Foreign and Colonial Services	...	...	...	...	3,000,000
Public Buildings	...	...	...	...	9,000,000
Printing, Paper and Stationery	...	...	...	...	4,000,000
Legal and Judicial Departments, Prisons, &c.	...	...	...	...	4,400,000
Superannuation Allowances to retired civil servants	...	...	...	...	1,100,000
Other expenses of civil administration (excluding Revenue Departments)	...	...	...	...	16,500,000

THE SECOND PEACE BUDGET, 1920-21.

Mr. Chamberlain's second Peace Budget (1920-21) was more hotly and lengthily discussed than any of its predecessors since the memorable Lloyd George Budget of 1909-10. It also resembled that performance in its very unsatisfactory results. It played down to the proletariat in its practical effects, while pretending to be very considerate toward property and property taxes. Mr. Chamberlain renounced his former sympathy with levies on wealth, but his Excess Profits Duty was only a question of degree. His Budget, when it had run the gauntlet of Parliamentary criticism had still two sets of grave defects, one technical, and the other fundamental. The technical faults were its wild estimates of revenue and expenditure. His estimated receipts were all out by millions—Miscellaneous by £71,129,000 more; Customs by £30,360,000 more; Excise by £15,163,000; Stamps, £10,586,000; Excess Profits Duty by £9,955,000 less, and so on through fifteen different branches of revenue. The net outcome of the errors in forecasting is an excess of £79,511,000 over the Budget estimates. But with such enormous figures to handle how could better results be expected or required?

The two essential questions of post war finance are the upward or downward progress of our expenditure and our taxes, the latter especially. In the current fiscal year the Chancellor of the Exchequer expects from the taxpayers heavy additions on nearly every tax within his reach. The totals compare as follows with those of 1918-19 and 1919-20 :—

	1918-19	1919-20.	Estimate 1920-21.
Customs ...	£102,780,000	£149,360,000	£150,000,000
Excises ...	59,440,000	133,663,000	198,650,000
Estate Duties	30,262,000	40,904,000	45,000,000
Stamps ...	12,438,000	22,586,000	25,200,000

	1918-19	1919-20	Estimate 1920-21
Land Tax &			
House Duty	2,480,000	2,640,000	2,500,000
Income Tax	291,186,000	359,099,000	385,800,000
Excess Pro- fits Duty	285,023,000	290,045,000	220,000,000
Land Values Duties ...	664,000	663,000	500,000
Corporations Profits Tax			3,000,000
Motor Vehi- cle Duties			4,500,000
	<hr/>	<hr/>	<hr/>
	£784,278,000	£998,960,000	£1,035,150,000

Figures like these tell their own tale. No country that ever existed or is ever likely to come into existence between now and the millenium could long stand such a deadly drain of its resources as they exhibit. But it may be some comfort for us to know that Mr. Chamberlain has been looking far ahead and trying to imagine a happy time when war charges shall have ceased (including the much-hated Excess Profits Duty), when all the Government trading accounts shall have been closed, and when our taxes shall have reverted to the sweet simplicity of pre-war days. Then he hopes to be able to present us with what he calls a "normal" budget, though it would be more properly called a "minimum" budget. It has already gone through two editions, the first one having been submitted to Parliament in October, 1919, and the second in June, 1920. In order to get down to "normal" level the following assumptions have to be made :—

- (a) That all war services will have ceased, and that trading Departments (*e.g.*, food, shipping, &c.) will have been wound up.

- (b) That all subsidies and unemployment donations will have been withdrawn.
- (c) That no further loans will be made to Allies and Dominions.
- (d) That the training schemes for ex-soldiers, &c., will have been completed, and nothing new arisen in their place.
- (e) That the cost of labour and materials will not have differed materially from that now obtaining.

Mr. Chamberlain's positive and definite declaration against incurring further liabilities had a direct effect on a number of burning questions which were agitating the country. It knocked on the head the Nationalisation crusade. It discredited the policy of State subsidies as a means of lowering prices. It closed the Treasury against an extension of wage doles. In a word it threw the advocates of State providence back on themselves and reminded Englishmen that they once were an independent self-supporting race. Regarding subsidies he spoke out clearly. His policy, he said, "was to bring them to an end wherever that could be done and as soon as it could be done. The railway subsidy could not be abolished until railways could be got into proper working order. As to the bread subsidy there were very few people who would say that it would be wise to remove it to-morrow."

From the State subsidy point of view railways and bread were on an essentially different footing. Railways required only to be left alone with freedom to charge fair rates and to pay fair wages. For the first three quarters of a century of their life they had enjoyed these two privileges without materially abusing them. They might at times have been rather high-handed with traders and in the days when food was abnormally cheap they under-paid their unskilled labour. But that error has been corrected two-fold and the boot is now on the

other leg. The railway companies have only to be allowed to raise their goods tariff to a level with the new economic conditions in order to satisfy the just demands of both their employees and their shareholders. Given these two requisites they could raise all the new capital needed for extensions and improvements on better terms than the State itself.

The latter fact, when the country begins to realise it as strongly as Mr. Chamberlain appears to have begun to do, will give the *coup de grace* to railway nationalisation. The money raising power of the State has evidently passed its climax and is now on the decline. A signal proof of this was furnished by the late loans which, notwithstanding their double appeal to conservative investors and speculative investors, were only a qualified success. Instead of funding a large portion of the total debt they provided for only a fourth of what will fall due in the next five years.

Railway nationalisation is a dead policy. The Government are now going for all they are worth on the opposite tack. Mr. Chamberlain closed his Consolidated Fund speech with an assurance to the House that the Government had made up their mind to cut down expenditure and were devoting themselves to issuing decisions to bring about that result. "There was," he added, "no ground for any fear that the Government would nationalise everything in the hope of securing more revenue. That was the last course that would enter his mind. The very gravity and difficulty of the situation was a sufficient argument against assuming liabilities of a doubtful speculative kind. Onerous obligations had been assumed under the Housing Bill, the Land Settlement Bill and the Ways and Communications Bill and the House should be content with them until they had been thoroughly digested."

Mr. Chamberlain did not then see and possibly he does not even yet see as clearly as he ought to do that the Govern-

ment have multiplied their financial difficulties by keeping the public in the dark regarding all the details of Treasury administration. Treasury accounts are still kept on seventeenth century forms and methods. Their very titles are unintelligible to the public. Add to this senseless mystery a bureaucratic passion for secrecy and the hopelessness of intelligent appreciation of our national finance will be at once apparent. Treasury reform has to begin at the bottom with a new set of accounts. It has to work its way through all the spending departments, giving for each of them intelligible reports of their operations. Special reports should be made on new departments and on special undertakings outside the ordinary limits of State jurisdiction. For all trading enterprises proper profit and loss accounts should be presented along with commercial balance sheets. The State before taking over the business of the country has to learn the elements of bookkeeping.

In any case the Railway Agreements and the subsidies depend on the ultimate choice of the House of Commons on two matters of high policy hitherto left in the hands of the Government. One is the policy of subsidising food and the other the policy of State controlled railways. Mr. Lloyd George's ninepenny loaf has cost, perhaps, a shilling to produce and the lost threepence has had to be made up by the taxpayers. It is a question which calls for serious consideration whether any Government should interfere with the natural course of food prices. Food is in future to be the governing factor in wages and cost of production; therefore, it should be a real and not a manipulated factor. The same argument applies still more strongly to railways. If anything in the country should be self-supporting it is the railways. A charge on the taxpayers of £60,000,000 a year for operating and maintaining them is so contrary to common sense that even Socialists should soon tire of it.

The various methods of our war finance are likely to be keenly discussed in the years to come. Their most obvious defect is that only a small part of them was suited to the actual conditions and circumstances of the war. In order to meet such a stupendous expenditure as was incurred and allow elbow room for reconstruction, forty year loans were the shortest that should have been issued. And these should have been limited to a total amount of three or four thousand millions. After that the term for all new loans should have been increased to eighty years.

This might have been done without clashing with the continuous or day by day borrowing arrangement. In the early stages of the war the London money market offered such unique facilities for continuous borrowing that it would have been gratuitous folly not to take advantage of them. But like most new ideas in banking, it was in danger of being run to death by over zealous adherents. London banking, previous to the war, was so barren of up-to-date notions that it had great difficulty in agreeing to the least departure from established customs. But when it threw over its century old prejudices against floating debt it went the whole hog on the new line. To have attempted to finance 8,000 millions of war expenditure on 2,000 millions of twenty-five year bonds and the rest snapshot loans, was little short of crazy.

There was a great deal in the world war which the world will all too quickly forget. It will take little interest in the details of millions of expenditure. These will be left to the midnight oil of the statisticians but it will have to interest itself in the huge war debts which the war has left behind it. They will concern us in a variety of ways—as taxpayers, as investors and as bond-holders. The service of the debt will be—or, at least, ought to be—our chief item of expenditure. Its defence from political attacks will be one of the main duties

of Parliament. Our war debt will be the most vulnerable of British institutions and the least capable of defending itself.

Apparently it will always be an unwieldy collection of marketable securities. Of all the belligerents, Great Britain has contrived to load herself with the greatest number and variety of obligations. The official catalogue of its bills, bonds, certificates, &c., contains more than twenty distinct items as compared with the American half dozen. Its floating debt is of three or four different kinds—Treasury Bills, Ways and Means Advances and Treasury Notes. Seven separate issues of Exchequer Bonds are now current at rates of interest ranging from 3 per cent. to 6. It has an equal number of long term loans at various rates and terms. A table of our War Debt is in short a formidable document as the annexed example will show.

BRITISH WAR DEBT, 30TH JUNE, 1919

(IN 1,000 £'s).

	£
Treasury Bills	796 100
Ways and Means Advances	774,215
<hr/>	
Floating Debt	1,570,315
Anglo-French Loan	51,370
Other Debt (chiefly American) ...	1,394,949
War Savings Certificates	241,500

Exchequer Bonds :—

5 % due October, 1919 (1916 issue)	16,924
5 „ „ December, 1920 „ ...	49,744
5 „ „ October, 1921 „ ...	75,839
5 „ „ October, 1919, or April, 1922 (1917 issue) ...	70,657
6 „ „ February, 1920	141,278

Exchequer Bonds :—

3 „ „ March, 1920	...	...	21,660
3 „ „ March, 1930	...	...	16,685
4 % Tax Compounded & 5 % National War Bonds	...	...	1,767 216
3½ % War Loan, 1925-28	...	...	62,746
4½ % War Loan, 1925-45	...	...	16,273
4 % Tax Compounded War Loan, 1929-42	...	...	52,372
5 % War Loan, 1929-47	...	...	2,037,945
2½ % & 2¾ % Consols	...	...	304,084
Debts to Bank of England and Ireland (2½ %) ...	...	...	13,646
Terminable Annuities	...	...	21,903
<hr/>			
Total	...	...	7,927,106
Miscellaneous Repayments	...	...	—
Debt Cancellations 1918-19 and 1919-1920 (Approximate)	...	...	233,000
<hr/>			
Net Total...	...	...	7,694,106
Debt, August 1, 1914	...	...	645,000
<hr/>			
Increase since August 1, 1914	...	...	7,049,106

What a rude shock our War Debt is likely to give to the average taxpayer when he first compares it with our pre-war debt. This shows a tenfold increase, namely, from £586,700,000 on the 1st August, 1914, to £7,648,900,000 in June, 1919. But bad as it looks it is not the worst side of the case. The annual charge, which is what tells on the taxpayer, increased far more than tenfold. It rose from £19,150,000 to £360,000 000 or nearly twenty

times the original amount. The subjoined table shows the increases of the various classes of stock :—

INCREASES IN BRITISH STOCKS, 1914—1919
(IN MILLION £'s).

SECURITY.				On Aug. 1, 1914.	On May 24, 1919.
Consols	...	...	...	586.7	371.7
Terminable Annuities	...	...	...	29.6	21.9
3½ % War Loan	...	...	...	—	62.7
4½ % War Loan	...	...	...	—	16.1
5 % and 4 % War Loans	...	...	...	—	1986.9
National War Bonds	...	...	...	—	1729.8
Treasury Bills	...	...	...	15.5	1022.7
Exchequer Bonds	...	...	...	20.5	392.6
War Savings Certificates	...	...	...	—	235.7
" Other Debt "	...	...	...	—	1301.4
Anglo-French American Loan	...	...	...	—	51.4
Ways and Means Advances	...	...	...	1.0	460.9
Other Capital Liabilities	...	...	...	57.2	49.1
Total				710.5	7702.9

There are not a few portentous figures in the above tables of our war debt, but the most portentous of all has yet to be mentioned. It is the £1,394,949,000 of " Other Debt." Such an entry in an official return of the British Treasury suggests some humiliating reflections. First, what a depth of carelessness and financial incompetence the House of Commons must have reached to permit of such an entry appearing month after month without demanding specific information about it. Secondly, what a height of cynicism the Cabinet must have

attained before it could dare to practise such legerdemain on Parliament and the country. There is a vague idea current in the City and, perhaps, also at Westminster that "Other Debt" means debt due abroad, but does it?

If it does full and precise explanations should be forthcoming as to its location, its composition and the nature of the liabilities involved in it. It makes the whole British race look foolish when it tolerates a game of hide and seek at Downing Street with the most important item of its war debt. Though not the largest item, this £1,394,949,000 is destined to give us the greatest amount of trouble. It may happen that one day our whole financial future will turn upon it. Already it is the most urgent of the many urgent questions affecting our war debt. How are we ever going to settle with the Americans for the 1,000 millions sterling of their advances to us during the war, which form the biggest item in that £1,394,949,000 of "Other Debt"?

Very few taxpayers have either the time or the skill to wade through the jungles of figures in which the British Treasury presents its accounts to the public. They require a simpler and more accessible barometer of national finance. The nearest approach to this may be found in the "Statement of National Debt and Assets" which is made up annually to June 30, and issued shortly afterwards. One has already been given—that for June 30, 1919; and the next in order—that for June 30, 1920—is subjoined:—

BRITISH WAR DEBT, 30 JUNE, 1920.

(IN 1,000 £'s).

Internal Debt—

Funded Debt (Consols and other Pre-War

Debt)	£314,952
Terminable Annuities	19,314
3½% War Loan, 1925-8	62,745

BRITISH WAR DEBT, 30 JUNE, 1920.—(Continued.)
(IN 1,000 £'s.)

Internal Debt—

4½%	„	1925-45	...	...	13,007
5 %	„	1929-47	...	...	1,977,109
4 %	„	1929-42	...	...	64,143
4 %	Funding Loan, 1960-90	...	...	...	409,100
4 %	Victory Bonds	...	...	...	359,500
5 %	National War Bonds, 1922 (1st Oct.)	...	...	...	203,550
5 %	„	„	1924	„	26,350
5 %	„	„	1927	„	212,900
4 %	„	„	1927	„	101,700
5 %	„	„	1923 (1st April)	„	212,700
5 %	„	„	1925	„	11,900
5 %	„	„	1928	„	149,300
4 %	„	„	1928	„	48,000
5 %	„	„	1923 (1st Sept.)	„	153,800
5 %	„	„	1925	„	18,300
5 %	„	„	1928	„	237,700
4 %	„	„	1928	„	26,200
5 %	„	„	1924	„	26,950
5 %	„	„	1929	„	42,500
4 %	„	„	1929	„	5,450

Exchequer Bonds, 1920, 1921, 1922, 1925,
1930 319,107

War Savings Certificates 275,081

Straits Settlements Loan (repayable in
sterling) 1,375

Treasury Bills 1,058,696

Ways and Means Advances 204,887

6,556,316

External Debt (at par) (chiefly to United
States) 1,278,714

Total Dead Weight Debt ... £7,835,030

On comparing the two tables, many changes will be found to have taken place during the year. Almost every line, indeed, is more or less altered. But the totals are not far apart indicating that our National Debt was not very different in amount on June 30, 1920, from what it had been a year before. The respective aggregates were 7,835 millions sterling in 1920, and 7,927 millions in 1919. But from the 1919 total 233 millions are deducted for cancellations, making the net total 7,694 millions. It is rather difficult, however, to reconcile the reduction of debt in the following year (June 30, 1920) with the Exchequer balance sheet for that date, which shows 806 millions of new money raised and 449 millions paid off. Where does this increased debt of 351 millions come in?

It will be seen that the post-war floating-debt in Treasury Bills and Ways and Means Advances stands at 1,263 millions, as against a pre-war 16.5 millions—an eighty-fold increase. The differences between the two sets of figures are so enormous as to render comparisons futile. On the face of it it is out of the question that the present population of the United Kingdom could continue paying twenty times the amount of interest on the public debt that their grandfathers paid a hundred years ago. Their production of consumable goods has not increased in anything like that proportion. Thus merely to provide interest and sinking fund on this huge accumulation of war loans may easily overstrain the economic strength of the community. Any efficient scheme of repayment is hardly to be thought of by the present generation. The utmost it can possibly do will be to consolidate all the existing issues into a proper national debt bearing a moderate rate of interest and well distributed among all classes of the people.

When we get to close quarters with the details of our war debt it will be found that the rate of interest is an important factor in the burden they represent. Hardly less important

will be their time-limit, in other words the rate at which they mature. In the Budget debate of April 30th, 1919, Sir I. Walton made some startling statements in this connection. We find he said "the to me very alarming result that in order to square the accounts up to the 31st March next (1920) we require to borrow on war loans or to find in other ways 2,100 millions sterling. That comes upon all our previous borrowings."

Refunding operations will apparently be divided into three stages. The first should include the whole of the loans falling due within the next five years, namely, the Anglo-French loan of 250 million dollars, the earlier series of National War Bonds, the War Savings Certificates, Exchequer Bonds of 1920-21 and, if possible, the United States Government advances. These, as shown below, might amount to fully 2,400 millions :—

DEBT MATURING BEFORE 1925.

National War Bonds	...	...	£1,767,216,000
War Savings Certificates	...	...	241,500,000
Exchequer Bonds	...	...	354,442,000
Anglo-French Loan	...	...	51,370,000
			<hr/>
			£2,414,528,000

Thus our financiers in their wisdom have arranged things so that within five years of the end of the war we may be called upon for nearly a third of our total war debt. If we add to these short bonds the floating debt proper (1,058 millions of Treasury Bills falling due day by day and 205 millions of Ways and Means Advances, which should never have been allowed to reach one-tenth as much), we get a grand total of £3,984,843,000, or one-half of our entire war debt due within five years. Our financiers have not allowed themselves time to turn round. In the second five years (1925-1930) they will

find a fresh lot of refunds awaiting them—the remains of our first War Loan, the $3\frac{1}{2}$ per cents. of 1914 (63,746,000), the Exchequer bonds falling due in March, 1930 (£38,345,000), and the later issues of National War Bonds, the whole amounting to well over a hundred millions.

In the nineteen-thirties the Treasury will have a short breathing time, as no loans are repayable during that decade, except at the option of the Government. The first compulsory repayment is that of the Four per cent. Income-tax free War Loan, which matures in 1943. Present amount, £62,745,000. The next is the McKenna $4\frac{1}{2}$ per cent. War Loan, of which only £15,007,000 now survives, redeemable in 1945. The third and last in this decade will be Mr. Bonar Law's Five per cent. War Loan of 1917. It has proved to be the only Treasury operation worthy of the occasion. It created a real War Loan of over two thousand millions, and there is still £19,777,000,000 of it outstanding—all redeemable in 1943.

CHAPTER IV.

THE NAPOLEONIC AND THE KAISER WARS COMPARED.

HEREAFTER war finance is to be one of the most exciting and absorbing branches of British education and the two world wars of the nineteenth and twentieth centuries will be its classical examples. Searching comparisons will be made between them on every point and detail. Endless controversy will be raged around them. They will each stand for particular methods of finance and represent a peculiar system of economics. The great question between them will be which proved most capable of financing a great war? Nine persons out of ten will at once answer: "Why, the Twentieth Century system, of course." That answer has, in fact, been frequently given in the House of Commons by all the politicians who thought the comparison worth making. Half a dozen Ministers beginning with Mr. Lolyd George have already given it from the Treasury Bench.

After a some what minute study of the facts and figures, other writers have come to a different conclusion. In their view the Napoleonic war was decidedly the better financed of the two. It had the following conspicuous merits and advantages:—

It was best prepared for a sudden war strain.

It adjusted itself most quickly to the transition from peace to war.

It was organised on the simplest and most effective lines.

It enjoyed traditions of economy inherited from a long series of successful campaigns in all parts of the world.

It had command of the world's trade and of all the foreign exchanges.

Its man-power was abundant and cheap—much cheaper than it ought to have been.

The later war differed so enormously from the earlier one—in magnitude, in costly organisation and war material, in complex administration and many other respects—that detailed comparisons between them would be useless, but a general comparison may be made of the results achieved and their respective costs. The conclusion arrived at by unbiassed financial critics will be that in the Napoleonic war a maximum of success was obtained at a minimum cost. On the other hand there is reason to fear that in the Kaiser war a minimum of success has been obtained at a maximum cost. It begins to appear questionable if for our eight thousand millions sterling we are to get as much as was won a century ago for a tenth as much.

This result will be the more disappointing inasmuch as the financial strain of the Kaiser war is becoming relatively heavier than the one our great grandfathers had to endure. Their economic machinery was better able to resist the shock than ours was, consequently was less deranged and righted itself more quickly. Contemporary accounts describe their war boom as expanding year by year almost without a check or a halt. It was not until 1810-11, when peace was almost in sight that the financial situation began to cause anxiety. The light taxation with which the war was financed at the outset gave the country time to get into its stride.

From an economic point of view the Napoleonic war could not have been sprung upon us at a more favourable moment.

A great industrial development had lately commenced and it was being supplemented by an extensive growth of private banks. The oversea possessions won in the Seven Years' War had given a fillip to British Shipping and enlarged the market for British manufactures, textiles in particular. Our agriculture was at the height of prosperity, and productive power. The population was increasing rapidly and required fresh outlets. The condition of England was economically the reverse of that of France and, indeed, of most European countries. While they starved, it flourished.

By optimistic economists it has been maintained that the burden we have now to bear is not relatively heavier, but lighter, than that which our great grandfathers shouldered for twenty years and out of which they developed unprecedented prosperity. But such comparisons, to be really convincing and enlightening, have to take into account innumerable differences in the conditions, social, political and economic, of the two periods. A community of twenty million souls cannot be measured very closely with one of forty-six millions. It would be like trying to compare a simple machine, like a spinning wheel, with a modern cotton mill, or a tallow candle with an electric lighting installation. The risks of breakdown are infinitely greater in the more complex machine. In fact, they may be said to increase with its complexity.

But though the comparisons themselves may not be of very solid value they have been the means of collecting for us a large amount of historical and statistical information. The period in which Pitt's income tax was planned and discussed was particularly rich in such materials. His estimates of the various classes of income that would come under the tax was the most detailed calculation of its kind that had so far been attempted. He made it up to £102,000,000 and expected that his proposed 10 per cent. tax would yield a round £10,000,000.

But this was much too sanguine a hope to start with. Pitt himself never saw it much over half that amount. The effective rate therefore was only 6 or 7 per cent. against our present 30 per cent., exclusive of super-tax

The Army with which the British conquered Napoleon and smashed his Empire was one of the cheapest ever employed on such a service, while the one with which they smashed the Kaiser was the very dearest. The former was largely composed of foreign recruits—Hessians, Hanoverians, Galicians and even Russians. The Russian contingent was not a success, its habits and customs proving so objectionable to the Channel Islanders, among whom it was camped, that it had to be sent home again. The Bolsheviks were not the first of their kind who have given us trouble. The German contingents were more manageable, having been hired wholesale from their respective Sovereigns. A German statistician (Kulb) has furnished us with a list of the subsidies which the British Government paid to its Continental Allies. Between 1792 and 1815 they amounted to £62,711,000—a mere trifle beside the Allied and Dominion loans which the present Chancellor of the Exchequer has on his books.

There is a touch of humour in some of the items—the Russian subsidy, for instance, £9,613,000, the largest on the list. Next comes our ancient Ally, Portugal with £9,533,000; then Germany, £7,936,000. But this was for the Empire alone. Several German States were separately refreshed: Prussia had £5,669,000; Austria, £4,211,000; Hanover, £2,480,000; Hesse Cassel, £1,271,000; Bavaria, £501,000; Hesse Darmstadt, £263,000. Small States (too numerous to particularise), £1,733,000; German Princes (also too numerous to mention), £700,000. The Dutch had a full share of British spoil. In conjunction with Russia they had £4,136,000, which afterwards was put on the market and became famous as the “Russo-

Dutch loan." Besides this, Holland had for its own account, sums aggregating £1,529,000.

Altogether, Germany had rather more than twenty millions sterling and Russia nearly half as much (exclusive of the Russo-Dutch loan). The services of Spain and Sweden must have been highly valued, for between them they had fully ten millions (Spain £5,248,000; Sweden, £4,845,000). One of the smallest items, but not the least interesting, was the £200,000 of advances made to the Bourbon Princes for subsistence money during their exile. For a similar reason the Prince of Orange received £220,000, which was honourably repaid as also were the Bourbon subsidies. Of the whole twenty-three subsidiaries only these two made any refund.

Compare, or rather contrast, with the above primitive financial arrangements the gigantic operations which the Kaiser war called for not at home only, but all over the world, and especially in America. It had barely completed its first year when the demoralisation of sterling exchange gave a disagreeable shock to the City and the Treasury. After a few emergency conferences with City bankers and financiers, it was decided to raise a large dollar loan to meet the liabilities on munition contracts rapidly falling due. The French Government agreed to join in it, and to ensure its success an important Anglo-French Commission went out to New York. This was in September and the way was prepared for them by judiciously distributed information about British finance. New York banks interested in the forthcoming loan advertised it freely in their monthly circulars. The National City Bank obtained from Sir George Paish a special memorandum on the subject. In order to illustrate the growth of British wealth in the past century it thus contrasted the conditions of 1816 and 1914.

"How large an indebtedness an old nation can incur without strain and without discomfort is shown by the experi-

ence of Great Britain in the Napoleonic wars of a century ago. In 1816, at the close of the Napoleonic wars, Great Britain's population was about 20,000,000, her accumulated wealth was no more than £2,500,000,000 and her income did not exceed £300,000,000 per annum, but her debt was £895,000,000 with an annual interest charge of £33,000,000. It is true that at that time the taxation of the poor was heavy, but on the other hand, the taxation of the rich was light, and no one doubted the country's power to meet a debt charge which called for 11 per cent. of the nation's annual income, or to carry a debt that was equal to over one-third of the nation's total wealth, and to three times the nation's annual income."

"And the British people experienced no difficulty in meeting this great burden of interest which was equal to 11 per cent. of their total income. At that time the total annual expenditures of the Government reached £65,000,000—a sum equal to over 25 per cent. of the nation's entire income.

"Great as may be the debt incurred in the present gigantic war, and great as may be the Governmental expenditure thereafter, the burden of the interest and expenditure will be nothing like as great as was the burden of interest and expenditure in 1816 and in succeeding years in relation to the power of the country to bear it.

"At the present time the population of Great Britain is about 47,000,000, while her accumulated wealth is in the neighbourhood of £17,000,000,000, and the annual income of the British people is about £2,400,000,000. Prior to the war the amount of British debt had been reduced to £706,000,000, and the interest charge was no more than £17,341,000, a sum equal to less than three-quarters of 1 per cent. of the nation's income."

These visions of statistical wealth in which the Giffen School

of economists revelled before the war, had a demoralising effect not only on our Finance Ministers, but on the House of Commons and the country. They weakened financial control gave a free rein to expenditure of all sorts, old and new. Every tradition of national economy was destroyed and all the historical safeguards against waste were broken down. Apart from the huge loss of money involved, the solvency and security of the Empire were compromised by this reckless finance. Ultimately, it had a serious effect on our international relations, especially in our relations with anti-British Powers.

We now know for certain that one of the temptations to the Germans to precipitate their attack in 1914 was the Lloyd George budgetting of the preceding five years. It had enormously increased the national expenditure and imposed heavy loads of new taxes. Only a few weeks before the war broke out Mr. Lloyd George had had the melancholy distinction of raising the income tax to a record figure. So high, indeed, that his own political friends revolted and made him reduce it again.

The Napoleonic war began in 1793, and with a short break of about a year lasted until 1815. In those twenty years the expenditure amounted to 831 millions sterling as against 11,000 millions for the Kaiser war—as far as has yet been definitely settled. It may take years to adjust the enormous mass of accounts and cross-accounts which have to be gone through, audited and compiled. The accounts of the Napoleonic war were not finally made up and published until 1869—fully half a century after peace had been signed and ratified.

These accounts have raised some interesting questions relating to the proportions of the total cost that were liquidated by war taxes and by loans. On this point some eminent financial authorities, including

two City Editors, have had a sharp difference of opinion. The *Times* made out that up to nearly the end of the fiscal year 1917-18 the share of war expenditure paid out of revenue was 36 per cent. or more than a third. On the other hand the *Economist* would not admit that it was as much as 25 per cent. The former backed his opinion by a fine show of impressive though rather bewildering figures :—

“The contention,” he said, “that 47 per cent. of the cost of the French and Napoleonic wars in 1793-1815 was paid by our forefathers out of taxes is based on the well-accepted calculation to that effect published in 1869 in Part III. of the great Parliamentary Return of Public Income and Expenditure from 1688 to 1869 (*p.* 709). It showed that in 1793-1815, out of a total public expenditure of £1,648,508,550 the amount properly to be regarded as “war expenditure” was £831,446,449, and that revenue contributed £391,148,370 towards this, while the balance of £440,298,079 was provided by the creation of debt. But it must be remembered that this calculation was made when the war was over and the accounts had all long been adjusted. We have as yet no proper basis for any corresponding calculation as regards the cost of the present war. When the *Economist* says that we are paying “less than a quarter” out of taxes, it is not comparing like with like. What it means, of course, is that up to March 9 last, we have had an “expenditure” of £6,777,478,452 (including what is “recoverable”) since the beginning of the present war, and that, while £1,714,233,808 has been raised by revenue, our net borrowings have amounted to £5,063,244,644. But this last figure for the increase in debt includes not merely the Loans we have made to the Allies and Dominions, but also large further amounts against which we hold assets in the shape of equivalent values or credits. We believe that proba-

bly at least 2,000 millions ought properly to be set off on these accounts against our borrowings "for the war." If so, we have really paid for our expenditure since war began in the proportions of 1,714 millions out of revenue as against only about 3,000 millions by creation of debt—not "less than" 25 per cent., but over 36 per cent. out of revenue. With expenditure on its present scale such a proportion out of current revenue seems to us to require no apology. It is something we have a right to be proud of."

From the long and costly struggle of a century ago Great Britain emerged with a tremendous debt, but also with vast resources which the war had vivified and called into play. It has been asked why the Great Britain of to-day should not be able to repeat that economic feat and even to improve upon it. Ardent believers in Lloyd George finance assure us that it could be quite easily eclipsed if we set our minds to it and saw things from the right economic standpoint. The Great Britain of to-day is, they assure us, infinitely richer and financially stronger than was the Great Britain of a century ago. If our great grandfathers could fight on doggedly for more than twenty years (with a very brief rest), why should we not do as well or even better?

In order to prove that we, too, could hold out twenty years if necessary, the most curious displays of figures were presented to us. Our income tax assessments, our death duty valuations, our foreign trade, our national revenue and expenditure, our local rates and a long array of other statistics equally exhilarating have been pressed on our attention. When Mr. Lloyd George was at the Treasury he gilded his new taxation pills somewhat copiously with panegyrics on our inexhaustible resources, fluid and otherwise. In one of his financial statements (May 4th, 1916) he held up our great grandfathers to us as examples of heroic taxpayers. "In the Napoleonic

wars," he said, " they had to face it (the question of taxation) and they faced it like men. They began the war with a tax which was equivalent to one-seventh of the national income. They proceeded to one-sixth and as the war went on to one-fifth, and then to one-fourth, and they ended by taxing themselves to the extent of two-sevenths of their income. That is what our ancestors did to meet the great Continental war."

Mr. Lloyd George's history is frequently lame, but here it is quite out of joint. No one intimately acquainted with that dramatic period of our financial history could ever recognise it. Our ancestors instead of beginning their great war tax by giving up a seventh of their incomes, did not begin to think of serious war taxes until its fifth year, namely, 1798. Then they submitted with a bad grace to Pitt's 10 per cent. experiment, that is, 2s. in the £. They had never to go beyond that and when the war ended they cut off the income tax in the most peremptory manner. How the taxpayers who joined in the new departure after Waterloo got their war taxes cut off so rapidly is an historical secret well worthy of investigating. Unfortunately, Mr. Lloyd George's picture of our brave ancestors facing their war taxes like men happens to be too complimentary. Neither at the beginning nor the end of the war were they in any hurry to face taxation. They shirked it as long as they could at the start and cut it short at the finish. If our war burdens could be as quickly lightened as were those of our great grandfathers we might be supremely thankful.

During the Napoleonic war the greatest of British assets was the land and its cultivators. They were the backbone of the war, and its principal paymasters. They fed both the armies and the people, and grew rich upon it beyond all precedent in English history. A popular historian has drawn a graphic picture of the great wave of prosperity on the crest of which

the country floated after fifteen years of deadly struggle to final victory.

“ During the earlier years of the war the increase of wealth had been enormous. England was sole mistress of the seas. The war gave her possessions of the Colonies of Spain, of Holland and of France, and if her trade was checked for a time by the Berlin Decrees, the efforts of Napoleon were soon rendered fruitless by the vast smuggling system which sprang up along the Southern coast and the coast of North Germany. English exports had nearly doubled since the opening of the century. Manufacturers profited by the discoveries of Watt and Arkwright : and the consumption of raw cotton in the mills of Lancashire rose during the same period from fifty millions to a hundred millions of pounds. The vast accumulation of capital as well as the vast increase of the population at this time told upon the land and forced agriculture into a feverish and unhealthy prosperity. Wheat rose to famine prices and the value of land rose in proportion with the price of wheat. Inclosures went on with prodigious rapidity, the income of every landowner was doubled, while the farmers were able to introduce improvements into the processes of agriculture which changed the whole face of the country. During the fifteen years which preceded Waterloo, the number of the population rose from ten to thirteen millions, and this rapid increase kept down the rate of wages which would naturally have advanced in a corresponding degree with the increase in the national wealth.”

Both the Napoleonic and the Kaiser wars were fights to the death. In point of magnitude there was no comparison between them. It has been said that Great Britain had more soldiers in the field in the late war than her whole male population of a century ago. On the other hand we enjoyed important advantages this time that we did not have before. Our command of the sea was much more complete and continuous

than then; our relations with the United States were more friendly and the Americans, who a century ago openly favoured our chief enemy, France, began this time as friendly neutrals and ultimately became powerful Allies. In 1812, we had an American, as well as a Continental war, on our hands. Imagine what the consequences might have been lately if both sides of the Atlantic had fallen into hostile hands! Instead of fighting the Americans as in 1812 we have made munition millionaires of them.

The British ordeal of a century ago, if not so intense as that of to-day, was much more prolonged. Our great grandfathers had a much longer struggle than we were called upon to endure. But one hope cheered them which, unfortunately, is denied to us. They confidently expected that the moment peace was once more secured, the heaviest and most oppressive burden of the war, namely, the income tax, would be lifted from their shoulders. Pitt had imposed it as a special war tax. He and succeeding Chancellors of the Exchequer had repeatedly committed themselves to the popular belief that it was for the duration of the war and no longer. After Waterloo the Ministers in power began to shuffle, but the House of Commons promptly pulled them up short.

Pitt's system of war finance differed through and through from that of Mr. Lloyd George, but nowhere so strikingly as in his methods of borrowing. Narrow as was the market he had to borrow in and infinitesimal as was its loanable capital compared with that of to-day he made almost, if not quite, as good terms for the public as any of our own Chancellors of the Exchequer secured for us. He had three standard types of loans—three per cents. fours and fives. For his three per cents. he obtained 77, so that the actual cost of the money to the Treasury was £3 18s. per cent. His four per cents. realised 89,

making their average cost £4 9s. 3d. per cent., and his fives actually fetched a higher figure than Mr. Bonar Law's sensational thousand million issue of January, 1917, namely, 104.

But in fairness to our own Chancellors of the Exchequer, it must be remembered that Pitt was not handicapped as they are with a penal income tax. The three per cent. interest was subject to a deduction of 5s., making the net yield £3 13s. A 10 per cent. levy on the £4 amounted to 8s. and reduced the net yield to £4 1s. 3d., while a similar rate on the £5 reduced it to £4 6s. 2d. per cent. There were no Exchequer Bonds in those days, but if there had been it may be doubted if Pitt would have ever made a 6 per cent. issue as Mr. McKenna did. He had a continuous borrowing system of his own, which if not so brilliant as Mr. Drummond Fraser's, served its purpose.

As we have remarked elsewhere Pitt began his war expenditure very cautiously, and for the first three years his borrowing was enviably moderate. What would we not have given for him in 1915 when the millions began to fly around like Treasury notes in the Munitions Ministry! Before the war broke out the National Debt was being steadily reduced. In 1791-2 it was lightened by £2,052,000, and next year war borrowing began in a very small way, £7,312,000 having been added on balance to the National Debt. Even the second year did not call for heavy borrowing, the net increase of debt having been only £14,597,000, but this may have been partly due to delayed payments, a practise to which the Treasury was notoriously addicted in those days. The net balance of war borrowing in that year (1794-5) was £56,565,000, after allowing doubtless for Sinking Fund payments.

This seems to have been one of the heaviest borrowing years and only once in the whole course of the war was it exceeded. The heaviest year of all was 1813-14, when £80,187,000 was added on balance to the debt. Another

striking feature in it is the rapidity with which borrowing was curtailed as soon as the war closed. From the £80,187,000 of 1813-14 there was a drop in the following year to £22,484,000. But in 1815-16 the supplementary campaign, which ended at Waterloo, entailed an increase in the amount of new debt to £48,715,000. Then a strange thing happened, or what at least may seem strange to present-day financiers.

The Treasury almost immediately began to reduce the debt. In 1816-17 it reported a decrease on balance of £17,034,000. Considering that its war taxes (including the income tax) had been abruptly cut off, this was a financial achievement to be proud of. Had Mr. Lloyd George ever done anything of the kind he would have deserved the freedom of every city, town and village in the United Kingdom. The war has been finished for two years and the talk still is not of reducing taxes, but of raising them. In almost every branch of war finance we are doing the reverse of what our great grandfathers did in the first years of peace a century ago. It was their prompt and courageous retrenchment that enabled them to return to the Gold Standard in 1819.

Again, how might the two wars compare as regards industrial preparedness? Worse even than on the financial side. In 1793, when the French war broke out, Great Britain was as paramount in industry as on the sea. She was by a long way the largest producer of textiles, machinery, metal ware and other staple goods. She controlled practically all the world's best markets. Her banking system had no competitor worth speaking of. Even in those early days London was the money market of the world. Turn from this proud prospect to the industrial England of 1914—the England which was plunged into a world war so unprepared that in the fourth or fifth year we were still building shipyards and munition factories.

The parallels which have been drawn between the economic condition of Great Britain at the close of the Napoleonic war a century ago and its conditions at the close of the world war to-day have practical, as well as historical, interest. In addition, they furnished materials for a concrete study of some of the most vital problems of war and peace. But they will be difficult to draw with any useful degree of accuracy and reliability. Those who indulge in them most frequently do not appear to have yet hit on a uniform standard of comparison. Quite different and even contradictory terms are at times employed in them. Hitherto the national wealth at the two periods have been measured by monetary standards, but latterly these have become too artificial and erratic. Commodity standards, or "economic values," as they are sometimes called, are now in vogue, but the necessary data for them are as yet very scanty.

As to our later nineteenth century wars, we have more exact information. The Crimean War bill is generally put down at a round seventy millions sterling, and the South African at 211 millions, or three times as much. But the rate of expenditure was absolutely insignificant in the earlier wars as compared with the latest and greatest of them all. Our Napoleonic expenditure averaged 37 millions sterling per annum—the Crimean about 23 millions; and the Kaiser war (assuming a net total of 11,000 millions), 2,200 millions per annum. For the whole of the nineteenth century the annual average was 36 millions, but it was very unequally distributed. Fully a third of it was spent in the first two decades of the century, and another third in the decades 1820—1860.

The gross war expenditure of the world—that is in regular wars—during the whole of the nineteenth century—was not more than 3,000 millions sterling or less than half of the British expenditure alone in the five years of the Kaiser war.

If the financial effects grew at a corresponding rate it can be imagined what an enormous strain would be thrown on the banking and commercial machinery of the country. Little wonder if after eight months it began to tell. Mr. Asquith, in moving a Vote of Credit, rightly described it as "a demand beyond all comparison larger than has ever been made by any British Ministry in the whole course of our history."*

* March 1, 1915.

PART II.

ITS INDUSTRIAL EFFECTS.

CHAPTER V.

THE LABOUR DEADLOCK.

One of the greatest marvels of the war was the zeal and enthusiasm with which all classes rallied round the colours. Working men of all trades and occupations joined up along with employers and capitalists. At the front they amalgamated into an army of patriots and heroes. No vestige of labour trouble was ever seen there. What was left of the old antagonism remained behind and found too ample scope in munition works, shipbuilding yards, collieries and docks. Notwithstanding the nominal truce between Labour and Capital which had been repeatedly proclaimed, and the alleged suspension of trade union restrictions for the period of the war, disputes were more frequent than ever. Latterly the country was never long free from them and sometimes there would be three or four of them going on together. What made them more troublesome and mischievous was the fact that all the blame was seldom on one side.

These outbreaks of labour unrest had three marked peculiarities—first their frequency, second their irresponsibility and third the futile way in which they were handled by the authorities. The latter were politicians of various sizes and types, ranging from Mr. Lloyd George himself down to the roving Commissioners who were sent out as conciliators. The whole situation was honeycombed with politics and steeped in

political chicanery. Some public department or other was sure to be at the bottom of the dispute. Then another public department intervened as arbitrator and probably made things worse. At last it might become bad enough to demand the personal attention of the Prime Minister himself. With his persuasive genius he could always beguile the malcontents into a settlement of some sort, but it was often of the pie-crust order, and did not last more than a few months. Lloyd George agreements are notoriously shortlived.

The labour trouble which began, but did not end, in public departments or controlled industries was bad enough, but it had a still more prolific and mischievous source. The House of Commons, by rushing through raw, ill-considered measures, which, for no evident reason, upset existing arrangements, irritated the men, provoked their suspicions and gave them fresh grievances to grumble about. Mischief-makers of various kinds—pacifists, syndicalists and democratic control cranks—were always at hand to rub in the bitter feelings excited by official stupidity. The sore would be chafed and irritated until it passed beyond the control of the Department primarily responsible and reached the House of Commons. Then the half baked Bill which had precipitated the revolt would have to be withdrawn for reconsideration or dropped altogether. Quite a list of Parliamentary false moves of that kind made during the war can be easily recalled.

British labour has become so tarred with politics that it can no longer be dealt with on business principles. Business has been almost entirely eliminated from the relations of labour and capital. The capitalist and the employer have been pushed aside and their ideas or interests count for very little. They no longer think it worth their while to put up a decent fight for their rights and the rights of the community. Knowing that in the end they will have to give in, they climb down

gracefully at the beginning. The politicians and the shop stewards, as the new race of labour controllers call themselves, then settle the question between themselves. The submissive employers are eloquently praised by Mr. Lloyd George for their patriotism and magnanimity and the episode ends for the time being. But the longer this game goes on the deeper British organised labour must sink in the political mire. It is in pretty deep already.

The *quid pro quo* dangled before the eyes of the railway companies in 1907 was a fixed agreement for a term of years which they thought guaranteed an interval of peace. But there is no finality in labour politics or fixity in labour agreements. In 1911 a fresh revolt broke out, and the whole dreary round of negotiation, conference and Lloyd George intervention had to be gone through again. But this time the railway directors showed a little more backbone. They insisted on their right to pass the cost of the wage increases on to the public, and with a bad grace the Government had to yield. But it took nearly two years to get a Bill authorising the necessary increases in rates forced through the House of Commons. The compromise of 1911 had hardly got into full operation when the war opened up a new prospect of endless labour trouble. It was staved off by nationalising the railways for the period of the war.

Labour politics reached their pre-war climax in 1912, which also had the evil distinction of being the Kaiser's Morocco year. It produced two national strikes in rapid succession, which kept the whole country in hot water for seven or eight consecutive months. The first was the coal miners' strike for a minimum wage to apply to all the coalfields in the country. A succession of official, Parliamentary and ministerial mediators tried in vain to bridge over the gulf between the demands of the men and the final offer of the coal owners. Even Mr.

Lloyd George's diplomatic skill was for once baffled, and in the end Parliament had to pass an Act conceding the principle of a minimum wage. This did not completely satisfy either party, but it served its immediate object to get the collieries re-started. The coal owners resented it as an act of *force majeure*, while the men objected to its not fixing a minimum figure.

The British Coal Mines Act of 1912 was high-handed legislation of a similar type to the American Eight Hours Law. It was passed over the heads of the coalowners, and proved to be the first step in a policy of indirect confiscation. Its demoralising effect on labour generally was quickly manifested in the outbreak of another gigantic strike, that of the transport workers in the Port of London. This was the most interesting of the strikes in one respect, as the employers were a public body. A few years before (1909) the principal London docks had been taken over and amalgamated—Mr. Lloyd George's first essay in high finance and a very successful one. It was further notable for bringing upon the scene the first of the new race of "business men," who were to supersede the chattering politicians. A Port of London Authority was constituted and the then Parliamentary Secretary of the Board of Trade, Sir Hudson Kearley, was placed at the head of it.

In his public career Sir Hudson Kearley had one great success and an equally great failure. In 1912 it fell to his lot as head of the Port of London Authority to have to fight this transport workers' strike. He stood out "like adamant," said his admirers against the demands of the dockers, and his three months' resistance wore them out. The dockers were further weakened by the carters refusing to come in. So the strike collapsed and Sir Hudson Kearley, senior partner in the tea firm of Kearley & Tonge and Chairman of the International Tea Company—a national network of tea-shops—

became a feared and respected captain of British industry. In due time he got his peerage, and assumed the title of Lord Devonport. Amid general acclamation he was selected in 1916 as Food Controller. But by this time, apparently, his "adamant" had been exhausted, and the Food Controller's orders became a bye-word for vacillation and uncertainty.

Great catholicity of taste was exhibited both by Mr. Asquith and Mr. Lloyd George in selecting leaders for the new era of business organisation. Mr. Asquith himself did not believe much in business men. Once he told a deputation that he had spent thirty years at the bar trying to settle their disputes. We may assume therefore that it was Mr. Lloyd George who discovered most of the hitherto unheard of organisers and men of commercial genius. His national insurance scheme produced a few whom he carried with him into his new Munitions Department. There they did not all shine as organisers, but their chief failing was in the handling of labour. Among the conspicuous failures was Dr. Addison, Mr. Lloyd George's first Deputy Minister of Munitions, and afterwards his successor. A gradual accumulation of labour disputes and local strikes culminated in the "Shop Stewards" revolt of 1917, and Dr. Addison's migration to the Health Ministry.

The diluted labour control, which was first applied to the new War Departments seems to have proved a fiasco. A mixture of trade union officials, who knew their business with political puppets, who did not even know that they did not know it, produced friction from the very root. It was a wrong system of administration for public departments, and equally wrong from the labour point of view. By this time our politicians should know that the labour problem, like the Irish problem, cannot be solved from the outside or by amateurs. In forming his War Ministry, Mr. Lloyd George showed that he was beginning to realise this truth by offering responsi-

ble positions to labour leaders. Some of them were accepted and some declined. Thus he ascertained who had the courage of their opinions and who had not. Another great gain was the elimination of Parliamentary figure-heads and barnacles.

Previous to the forcing of the Eight Hours Law through Congress the American people could be sincerely congratulated on their comparative freedom from labour politics. But the Eight Hours Law established a bad precedent and broke an honourable tradition. Hitherto, American employers and employees had generally been able to settle their differences among themselves. But in 1916 the railroad men's union challenged the railroad companies to a trial of strength. After prolonged negotiations and conferences with the presidents of the roads a deadlock was reached. Then the politicians butted in on the side of the unions and gave them their eight hours law. It was an almost parallel case to the threatened national strike of 1907 on the British railways. The railway directors could not concede all the demands of the men, and a complete suspension of railway traffic was in sight when the then President of the Board of Trade, Mr. Lloyd George, intervened with the usual result—capitulation of the railway directors.

It becomes more and more evident as labour unrest develops and extends that the principal economic task of the present generation will be to rebuild our industrial system almost from the foundation. We inherited from the nineteenth century two opposite economic policies, each of which had its weak and its strong points, but neither of them is entirely suited to existing conditions. It would be impossible to revive the Cobdenism of half a century ago, with its big fortunes at one end of the social scale and its wretched slums at the other. To-day the big fortunes are being rapidly levelled down by drastic taxation, and the slums are being slowly levelled up. Needless to say the one is a much more difficult task than the other.

The industrial keynote of our generation is better living conditions all round. Buying in the cheapest and selling in the dearest market is no longer considered the chief end and aim of commerce. The workman is no longer a machine to turn out a maximum amount of work at a minimum cost. No longer may he live as he likes or where he likes for all that his employer cares. In justice to the present race of employers it may be affirmed that they no longer deserve the reproach of heartlessness or callousness toward their employees. A great majority of them, especially in the larger industrial organisations are genuinely humane and sympathetic. They have no partiality for cheap labour, and do not grudge every shilling of a rise in wages that they have to pay so long as they get a fair return for it.

Both capitalists and employers have undergone a radical change for the better since the evil days of sweating and cut-throat competition. They no longer wish to screw the last farthing out of every transaction. The capitalist is content with a moderate rate of interest provided it is safe and steady. The manufacturers prefer a small but sure profit on a large output to a big but precarious profit on a small output. The merchant also "plays for safety" much more than he used to do. This is all for the good of the community and in favour of the workers. Whatever disposition there may ever have been to grind them down is fast disappearing. Every intelligent employer knows that it would be bad policy to attempt it. In the face of a well-established trade union it would be sheer folly.

The boot is now on the other leg. It is no longer the employer, but the worker who decides how a given industrial output is to be shared between the several contributors to it. Labour, of course, gets the lion's share, and it is always growing larger. This in a word is the industrial problem of our day.

The labourer himself seems to have a very vague idea how little he leaves for those who come after him. At a recent meeting of railway shareholders, the Chairman, Lord Bessborough, was at great pains to show that labour had not only a fair share of the receipts, but very nearly the whole :—

“ I find,” he said, “ that out of every pound of gross earnings in 1913 6s. 9d. was paid in wages, 4s. 5d. in the purchase of stores and material, 1s. 4d. in miscellaneous expenditure, including rates and taxes, leaving the balance for the stockholders. That balance represented 11½d. for every pound of capital the stockholders had invested in the undertaking to provide line, rolling stock, buildings, and other equipment for business purposes, and it was only sufficient after income tax had been paid, to yield a net return of 10¾d. in the pound. In 1918, 9s. 7d. went in wages, 3s. 11d. in stores and material, 1s. 3d. in miscellaneous expenditure, and the balance for the stockholder was again 11½d., but with income tax at 6s. in the pound the net yield was 8d. only.”

For long years employer and worker have been looking at a life problem from two opposite standpoints, which cannot be brought together by main force. If they are ever to be reconciled it must be by some method which will not sacrifice the one to the other, but, if possible, improve both positions. When the employer, on his side, asks only for fair compensation for his capital outlay, his skilled management and the risks he has to run, Mr. Smillie himself could hardly object. Mr. Smillie, in his interesting conversation with Mr. Lloyd George at Downing Street, had little fault to find with the present ownership of the collieries, except that it was individual and he wanted it to be entirely national.

But his main and, indeed, only substantial plea for the 30 per cent. advance claimed was that the coal miners might have better living conditions. Nothing wrong in this. Indeed

it was a plea that had been endorsed by public opinion long before and in a variety of ways. During the general election every electoral programme and nearly every speech had echoed it. But seeing it was so generally accepted and endorsed how did it come to throw the whole country into a panic lest its coal supply should be cut off? That was surely a very maladroit proceeding, and the only explanation of it to be found is that the business drifted into the hands of the politicians and was muddled by them in their usual fashion.

An issue very right in itself, highly important, and, in fact, of vital interest for the nation had been brought forward in such an awkward left-handed way as to do injustice to itself, and put everybody who had anything to do with it in a false position. To crown its ill-luck it collided at once with the Peace Conference. As Mr. Smillie reminded the Prime Minister the 30 per cent. claim was lodged with the Coal Controller on January 9th. Mr. Lloyd George somewhat ruefully confessed that he had reason to remember that "having only been able to attend to the matter by coming back specially from the Peace Conference," and now he added, "they could see from the events happening they were begging him to go back (to Paris) because his absence was delaying matters and peace was so important."

We all used to think so, but since it got to be so terribly mixed up with Leagues of Nations, national strikes and coal famines, we are no longer sure which is the most critical question. Many people blamed Mr. Smillie for "butting in," as the Americans say, so inopportunistly, but the radical mistake goes much deeper than that. The affair got into wrong hands altogether when half a dozen different Ministers took hold of it—first, the Coal Controller, who could only pass it on to the Labour Minister (Sir Robert Horne) who, after exhausting his

argumentative resources over it could only telegraph to Paris for the Chief.

Even if it had been a political matter, this would have been a very circumlocutionary mode of treating it. But it was not at all political and, therefore, was not their proper business. It was an economic question pure and simple, and should have been dealt with on economic lines by qualified economic authorities. Until it is so treated there will be no adequate solution of it. An impartial reader of the Downing Street dialogue would gradually discover that the trade union spokesman was misapplying a true doctrine, while the Governmental spokesman had no logical answer to give him. Mr. Smillie's plea for better conditions of living could hold true only of the people as a whole, it would not and could not be true of a sectional demand by one class of workers for better conditions at the expense of all other classes.

If Mr. Smillie had been as fair-minded a man as he endeavoured—and not unsuccessfully—to show himself at Downing Street he would have seen that neither logically nor morally could any single class of workers strike against the nation for improved conditions of living which were not to be shared by other classes or, at least, which are not to injure other classes. It was on this same ground that his second claim—namely, for demobilisation privileges for discharged coal miners, was refused. Ministers saw at once the unfairness of it in this case, but in the other there was a fine sounding generality not to be negated off-hand. The same principle really applied to it however: that is, the favouring of a class at the expense of the community.

"Better conditions of life for all" is a fine motto and universally recognised ideal, but there is little room for it either in modern politics or in militant trade unionism. It is a policy not to be realised by national strikes or by political

bluffing. It belongs to the domain of economics, and is one of the fundamental issues that labour and capital should be left to settle for themselves. How futile Parliamentary methods are in such a connection has been demonstrated in nearly every labour crisis that has occurred since the State, by passing the Trade Disputes Act of 1906, virtually made itself responsible for the latest excesses of the strike monomaniacs, "mass picketing," street parades, closing tramways, cutting off light and power, etc.

It is no longer any good blinking the fact that the new "lightning strike," alias "down tools," alias "direct action," is a monomania. Whatever the faults of the profit system may be, there is no substitute in sight which could carry on its work for six months without the risk of bringing our whole industrial system to the ground. On the side of the public there would also seem to be some paralysis of reasoning power in meeting the demands of the nationalists! Why are they allowed to put forward demands so obviously impracticable and ruinous for the rest of the community? Why are such wild demands seriously entertained for a moment without those who make them being asked for some proof of their ability to carry them out? Why is it not suggested to them that instead of taking over all the collieries in the United Kingdom at a stroke they should begin with a moderate number of them, and prove their ability to manage these better than they have ever been managed before? Or why not be even more modest and make a few experiments on single mines with their vaunted theories?

They cannot plead lack of power or of brains or of courage, because they have been talking all over the country as if they possessed a practical monopoly of these qualities. They cannot even confess to lack of capital. Every trade union in the United Kingdom down to the smallest of them is a virtual

capitalist, while the largest of them, such as the Miners' Federation and the National Union of Railwaymen may be quite truthfully described as bloated capitalists. But a discreet silence has been maintained as to this aspect of their affairs. No embarrassing questions are put to them on the subject. It has never been mentioned or even alluded to in the Downing Street negotiations, though it is a very material fact.

It is folly to talk of strikes and trade disputes generally as if they were direct issues between labour and capital. Neither the labour nor the capital is ever all on one side. The bulk of the capital may be in the hands of the employers, but they combine with it the highest kind of labour and the most indispensable. It is not at all certain that in a pitched industrial battle fought out under modern conditions the small minority of brain workers would not outstay the huge majority of brawn workers. If only the politicians were to stand aside the issue would not be long left in doubt. The Labour Party have not only political privileges of a flagrantly one-sided character, but they enjoy all the advantages of the capitalist without his responsibilities. They sail under false colours.

As the trade unions grow stronger and more ambitious the danger of their power being abused will be continually increasing. The central control will tend to consolidate in fewer and fewer hands, and it will carry with it the command of large accumulations of money. Members of an Executive Council may become millionaires; in fact, though not in name. They may have almost daily opportunity of deriving personal advantage from the use of the union funds in ways not actually dishonest. Suppose that the coal mines were to be nationalised *a la* Smillie, and the operation proved a failure. The mines would go into bankruptcy, and why should not the Miners' Federation with its then immense resources buy out the Government? Then we should have private ownership set

up again, but of a worse sort than ever. It is not very difficult to imagine what sort of a monopolist Mr. Smillie would be if he had both the labour and the capital sunk in the coal mines at his finger-ends.

There is a curious irony in the fact that labour and capital have changed places in the life time of the present generation. Still more curious is the fact that they have changed characters with each other. While capitalists and employers generally are daily becoming more considerate and conciliatory in their relations with labour the trade unions become more truculent and dictatorial. Chairmen of companies address their shareholders in a spirit of sweet reasonableness, which finds no parallel in the tirades of Soviet orators against capitalists and profiteers.

But if Mr. Smillie's programme were unobjectionable in itself there are agencies associated with it which render it inconceivable. Worse, if possible, than trade union anarchy would be the official oligarchy which would have to be taken along with it. The official oligarchs are already in possession, and they would very probably be able to hold their own against even the redoubtable Mr. Smillie. Anyhow the coal consuming public would have a poor enough show against their combined forces. It is a mercy that they do not work well together or the plight of the coal consumers would be still worse. How clearly it came out in the Lloyd George-Smillie dialogue that the quarrel was to a large extent officially hatched ?

That officials make very poor labour negotiators has been proved up to the hilt in the innumerable troubles of the past decade. At one time the Board of Trade had a special staff of strike-breakers, as they were called, who went all over the country acting the part of mediators between employers and employed. At one time Sir George Askwith, now Lord Askwith, enjoyed a high reputation in this line, but of late

events have been moving too rapidly for him. What with the phenomenal growth of the trade unions and the still more formidable growth of their programmes they can no longer be confined within departmental limits. Every strike of any consequence at once becomes a national question and the strike leaders are made the heroes of the day.

Proletarian socialism seems to be drifting in this direction. Its latest developments are wiping out national distinctions and reducing the world to a drab monotonous cosmopolitanism. Debts may come to be regarded as purely socialist matters with which the law has no call to interfere. When financial crises arise or deadlocks occur in foreign exchanges the League of Nations may consider itself entitled to step in and cut the Gordian knot. In this way our war debts may be automatically scaled down, or at least brought within manageable limits. Even an entirely new system of economics is not beyond the range of possibility.

It has to be remembered that not one, but many nations will be working together on this tremendous problem. Among these are the sharpest intellects and the best informed minds in the world. Each of them will try to discover its own solution and, failing that, will form combinations with other states to strive for joint solutions. The problem may be much too large for a single-handed solution even by the wealthiest and most powerful State. President Wilson's Supreme Economic Council may find more work waiting for it than even he foresaw.

Our National Strikers who, at the most critical period of the Peace Conference, threatened to bring the entire transport system of the Three Kingdoms to a standstill, may have done an incalculable amount of harm to the community, but it was not without compensations. The Coal Commission, which was appointed at the last moment in Mr. Lloyd George's

telephonic style, had more solid results than his official compromises generally have. It excited great hopes as the first open and above board inquiry that had ever been made into one of the most vital and, at the same time, most complex problems of our national economy. But with the usual perversity of our economic controversies, it started all at sixes and sevens as regards the real issue, and ended in a broadside of double-barrelled reports, containing a bewildering variety of recommendations.

The first of a series of ironies which characterised the inquiry was the fact that neither of the principal parties really wanted it. Mr. Smillie, the leader of the coal miners, considered it unnecessary waste of time, as all the essential facts regarding cost of output and the relative shares of labour and capital were already known. He had planned a rapid, strategical move, and every day's delay endangered his success. On the other hand, the Government, for reasons of their own, wished also to force the pace. At any time a tie-up of the mining and transport industries would have been a national calamity. It would have been doubly so had it upset the Peace Conference, as at one time it threatened to do.

The inquiry produced two startling revelations, neither of them creditable to British politics. One was the appalling poverty of our Statesmanship, both on the administrative and the economic side. Any foreigner watching the shuttle-like flights of Mr. Lloyd George from London to Paris and back again from Paris to London, might have imagined that there was only one man left in the country capable of winning a war or negotiating a peace or settling a strike or solving a financial problem or spell-binding the House of Commons! Whether his unique role was due to personal pre-eminence or to the moral and intellectual inferiority of his colleagues, it presented to the outer world a sorry spectacle. It was so sad, indeed,

that even the House of Commons began to feel the shame of it and to put on some show of independence. "Self-determination"—that blessed Wilsonian word—found at last a few feeble echoes at Westminster.

Not until the last moment did a man capable of dealing with the situation make his appearance. Then Sir Robert Horne's skill and firmness in handling the "stand and deliver" delegates of the allied unions were a delightful surprise to the public. Had he arrived sooner tens of millions of money, not to speak of months of intolerable worry, might have been saved to the country.

CHAPTER VI.

THE COAL CRISIS OF 1920.

In the two years immediately succeeding the Armistice the strike mania reached its climax. The number of strikes that broke out all over the country, their capriciousness, their unreasonableness and their irresponsibility excited fears that as a race we were losing our sanity. What had hitherto been the distinctive features of the British character had not only disappeared, but seemed to have been reversed. The strong Celtic element which had entered into the English trades unions, combined with the foreign virus imported from the Continent, was destroying their English sense of fair play. Strikes which had been originally trials of strength between masters and men, adopted only as a last resort, were now declared on the slightest provocation or the most foolish pretence.

Colliers struck against the payment of income tax, against police court fines for absenting themselves from work, against the introduction of new rules, against the refusal of holidays, against anything and everything the collier did not like. He almost justified the music-hall joke about Tonypandy as the place where "they strike for nothing and get nothing for striking." If anything could have been more foolish than the occasions on which they "downed tools" it was the management of the strikes. Often the men came out in defiance of their leaders. Often they disagreed among

themselves, and some districts came out while others remained in. Often negotiations were broken off in a temper or as a piece of bluff. Often settlements were repudiated as soon as made. Often they left disputes worse instead of better.

The evil results of the strike mania are largely due to its increasingly un-English character. It used foreign methods and weapons. It was also ridiculously illogical. It reversed all the well-understood maxims of English business and sport. In football and cricket "team work" is the all important desideratum, but in the labour world it is every man for himself and the devil take the hindmost. Labour leaders denounced each other. Officials intrigued against each other. Societies quarrelled about their right to certain kinds of work. If any other section of the community indulged in the follies and inconsistencies of the Labour Party the Labour orators and scribes would have ridiculed them unmercifully. But society indulgently tolerates their vagaries even where they go to the length of claiming to be the sole dictators of our foreign as well as our domestic policy.

The most startling revelation came from the colliers' camp. It was provided by their leader on the Coal Commission, Mr. Smillie. He was something new in the labour hierarchy. He combined moderation of speech with violence of demand. No miners' delegate on the Commission was more suave than he, or more plausible in argument, but his claims went far ahead of any of the others, and were more persistently adhered to. Mr. Smillie was, in fact, a new type of trade unionist. He had left behind him all the older shibboleths of labour. Sliding scales, cost of living standards and eight hour days were with him almost as much out of date as the fair day's work for a fair day's pay and all the other labour mottoes of half a century ago. Profit sharing had no charm for him. Even the complete extinction of profiteering would not have

satisfied him. Syndicalism, in its ordinary South Wales form, would only be an instalment of his programme.

The year 1920 will be long remembered as the great strike year. They were unprecedented, not only in number, but in variety and in their wide distribution all over the world. They produced many new forms of labour war and numbers of new leaders. On the other hand they also produced new methods of defence. The development of the industrial movement was by no means all on the labour side. Capital also scored some important gains, including two decisive victories in pitched battles with national strikers—one British and the other American. In both cases the immediate object was to preserve the high wages which had been paid during the war. Operations began at once on the signing of the Armistice and continued throughout the year.

The coal miners, under their new leader, Mr. Smillie, had the first innings, which took up the early months of the year. Then came the engineers and shipbuilders with an out and out Bolshevik crusade, which, after plunging Liverpool, Glasgow, Belfast and other provincial ports into chaos for several weeks, was finally suppressed. This was the first false start of labour and the second was made by the railwaymen. In March, the hot-heads of the N.U.R. lost patience with the slow progress of the negotiations for standardising the post-war rates of pay, and a "down tool" demonstration was indulged in at Waterloo. Mr. Thomas and his Executive, not being ready for the intended fight to a finish, succeeded in calling off the premature attack. Negotiations then proceeded quietly until the middle of September, when Unity House dropped its dud bomb.

The final act of the coal war tragedy began in July, 1920, and lingered on to September 9th, when Mr. Smillie finally rejected all three of Sir Robert Horne's proposals. This left

no doubt about the intention of the miners' leaders to play for all or nothing. It was the most reckless and unscrupulous gamble ever played with the fate of a great nation. It also threw an ominous light on the tactics of the Labour leaders. From their own public declarations it was evident that they knew they were fighting a losing battle. All their conferences and discussions betrayed violent differences of opinion among themselves. The miners' ballot from which they professed to derive their authority to throttle the national industry had been obtained by means compared with which the most corrupt political election was pure and honest. A very large minority embracing no doubt the best and most responsible members of the industry had voted against the strike. The Press, with the exception of a few kept organs of the Bolshevists, had unanimously denounced it.

Every coal consumer in the country anticipated the strike with horror. And yet a few self-important men, sitting in a small room, coolly condemned forty - seven millions of people to physical and moral agony of unknown duration. With an exquisite refinement of hypocrisy they adopted in the same week a vehement protest against the Government allowing one man, a Sinn Feiner and a traitor, to win a cheap martyrdom by starving himself in gaol ! The whole business was a big game of bluff. From the first they had never expected to squeeze all they wanted out of Sir Robert Horne. He was not a squeezable Minister like Mr. Lloyd George. But they evidently thought by bluff and blustering to force Mr. Lloyd George to intervene once more. That would have been—as it had so often proved before—a fatal step for all concerned. No other country in the world can show such a ghastly catalogue of fiascos as the Lloyd George labour agreements of the past twelve or thirteen years, beginning with the Railway compromises of 1907 and now, let us hope, definitely ended.

That there has been a revolt in the Cabinet against Lloyd George diplomacy in general, and his labour diplomacy in particular, is devoutly believed and prayed for by all loyal citizens.

Should the terrible battle have to be fought in earnest many vital questions may be decided by it or at least they will have a flood of new light cast upon them. For that reason many honest unbiassed citizens will rather welcome it. The most interesting points about it will be :—

First . Its probable extension.

Second. Its intensity in various trades and districts.

Third. Its possible duration : (a) on the part of the strikers, (b) on the part of the public.

Fourth. Its future consequences : (a) in the event of the strikers winning, (b) in the event of their losing.

Fifth. Its probable effects on our domestic and foreign trade with their relative questions of foreign exchange, cost of living, etc.

Sixth. Its influence on the future of the Empire.

Of the many different issues likely to be raised, the first to be put to a practical test will likely be the financial endurance of the strikers. On this point we ought to have been much better supplied than we are with official information. The Trade Unions have to make annual returns to the Registrar of Friendly Societies of their income, expenditure, accumulated assets and liabilities. Owing to printing difficulties these are generally eighteen months old before they see the light. During the war they were further delayed, and the detailed report for 1918 has not yet appeared (September, 1920) though it is expected shortly. But as if to keep this valuable information as secret as possible the Stationery Office has seen fit to limit severely the number of reports printed and to raise their price sevenfold—from 1s. 6d. to 10s.

At the end of 1917 the 579 Unions who reported to the Registrar had 4,396,279 members and £12,724,705 of accumulated funds. If the funds had been all free and immediately available they would have made an average of less than £3 per head: less than a week's wages on the new Utopian scale. But it was neither all free nor all immediately available. More than half of it was locked up in house property, loans, investments, stocks of goods, furniture, &c. Government and municipal securities amounted to £5,760,922; railway securities £58,581 (*mirabile dictu*!); freehold and leasehold properties, £599,299; mortgages to members, £689,343; and to non-members, £140,269; building societies, £21,718; loans to other Trade Unions, £5,093; other assets (including goods and furniture), £180,426. After deducting all these there remained a cash balance (on hand and in banks) of £5,362,338—less than 25s. per head.

If the Trade Unions had started a national strike in 1917 that would have been their maximum war chest. But the reality would have been much smaller. The Unions are not mere Labour organisations. They are Sick, Accident, and Benefit Clubs, Burial Clubs, Unemployment Insurance Societies, Travelling and Emigration Funds. Under each of these heads they have contracted heavy liabilities of a specific character, for which no separate provision has been made. This would cut off a big slice of the £5,362,338 "cash in hand and in banks." There would next come the question of how much should be kept in hand to meet current expenses. In 1917 these reached the considerable sum of over a million and a half sterling.

Nor would the financial difficulties of the strikers end there. They would have to realise several million pounds worth of securities on very bad markets. Even their funds in the banks might be difficult to get at. The banks are not in a position to cash big cheques at a moment's or even at a

week's notice. They will certainly not put themselves much about to find money for one lot of customers to ruin all the others. If they were foolish enough to try, the other customers could quickly counteract them by withdrawing their deposits and current balances. This would create such a deadlock that the intervention of the State might be required to relieve it. Subjoined is a list of

TRADE UNION ASSETS IN 1917.

Number of Unions				...	579	
In Banks and Cash	...	...	...	...	...	£5,362,338
Government and Municipal Securities	...	...	...	...	...	5,760,922
Railway Securities	...	...	...	...	...	58,581
Freehold and Leasehold Property	...	...	...	...	...	599,299
Mortgages to Members, etc.	...	...	...	...	...	689,343
„ others	...	...	...	...	...	140,269
Advances to Building Societies	...	...	...	...	...	21,718
Loans to other Trade Unions	...	...	...	...	...	5,093
Furniture, Goods, etc.	...	...	...	...	...	180,426
						<hr/>
						£12,817,989
Liabilities	...	...	...	...	...	93,284
						<hr/>
Net Assets	...	...	...	...	...	£12,724,705

It has to be noted that this twelve and three quarter millions was accumulated during the most prosperous period in the history of the Unions. In the six years between 1911 and 1917 they doubled themselves as the following figures show :—

SEVEN YEARS' INCREASE IN TRADE UNION FUNDS,
1911-17.

1911 (December 31)	...	£6,326,712
1912 „	...	5,617,927
1913 „	...	6,512,755
1914 „	...	7,013,048
1915 „	...	8,595,867
1916 „	...	10,518,299
1917 „	...	12,724,705

In the first three of these six years the Unions were financially stationary, the large gains of 1913 having simply sufficed to recoup the heavy losses of 1912 : a year of which Mr. Smillie and the colliers should have ominous recollections. It was the year of their first attempt to bottle up our coal mines. That adventure cost the Union funds as a whole a trifle of over seven hundred thousand pounds, to which add another seven hundred thousand for loss of the increase that would have been realised but for the coal strike. A more serious consideration is that in proportion to their membership they were no stronger financially in 1917 than they had been in 1911, but rather less so. In the earlier year they numbered 2,379,957, and in the later one 4,422,423—very nearly double. The funds, it will be seen also doubled.

Contrary to what might have been expected, the trade unions flourished during the war. In 1916 a veritable boom set in and continued right through to the end of it. The annual increases between 1914 and 1917 appear below :—

TRADE UNION MEMBERSHIP, 1914-1917.

1914	...	...	3,261,050
1915	...	...	3,438,642
1916	...	...	3,703,001
1917	...	...	4,422,423

Looking at the other side of the shield, we may ask what is likely to be the effect on the membership of a disastrous struggle depleting the accumulated funds and leaving behind it a load of debt, decimated income and a million of half-starved miners. The brunt of the inevitable defeat would, of course, fall on the big unions taking part in it. In the coal mining industry there are eight of these, and the details of their incomes were :—

INCOMES OF EIGHT PRINCIPAL MINERS' UNIONS.
31 December, 1917.

	Members	Income		Total Income
		From Members.	From Other Sources	
South Wales Miners ...	158,767	£224,056	£10,226	£234,282
Yorkshire Miners	145,527	137,071	20,417	157,488
Durham Miners	106,456	166,442	10,669	177,111
Lancashire and Cheshire Miners ...	77,138	59,375	13,669	73,044
Derbyshire Miners	51,444	52,496	17,761	70,257
Nottinghamshire Miners ...	37,907	41,601	10,450	52,051
Northumberland Miners ...	30,556	31,374	1,298	32,672
North Stafford Miners ...	22,739	22,545	2,762	25,307
	630,534	£734,960	£87,252	£822,212

As far as income goes, South Wales was the tail that swung the dog, but strangely enough it was only third in accumulated funds. These were distributed as under :—

TOTAL FUNDS OF EIGHT PRINCIPAL MINERS' UNIONS.
31 December, 1917.

	Mem- bers.	Accumu- lated Funds.	Per Head.
South Wales Miners ...	158,767	£318,892	£2 0 0
Yorkshire Miners ...	145,527	350,957	2 8 0
Durham Miners ...	106,456	241,165	2 6 0
Lancashire and Cheshire Miners ...	77,138	223,662	3 0 0
Derbyshire Miners ...	51,444	420,750	8 0 0
Nottinghamshire Miners ...	37,907	233,979	4 0 0
Northumberland Miners ...	30,556	42,516	1 8 0
North Stafford Miners ...	22,739	59,982	2 13 0

While Mr. Smillie was fighting his nationalisation crusade, local unions connected with the collieries started wars of their own, which made confusion worse confounded. The moulders of Ebbw Vale and Dowlais, when, in September, 1918, they presented their demand for a rise of fifteen shillings a week, can have had little idea that it was destined to become a matter of world-wide interest. Equally little can they have suspected that they were raising an issue of national importance and starting a struggle of the gravest consequence for organised labour. In the eyes of the public, it was overshadowed by the political manoeuvres of the railwaymen and the coal miners, but its special significance was well-appreciated in industrial circles.

It was the first stand up fight that had occurred for years between masters and men. The Government, after a futile attempt at intervention, left them virtually to themselves. The dispute was too small to give the Prime Minister a chance to play his favourite role of *deus ex machina*. Even the Labour leaders were powerless, for the men defied their authority, and they were not even agreed among themselves. Moreover, iron moulding is a key industry with many others dependent upon it, and doubtless the strikers counted a good deal on their supposed indispensability. All it amounted to in practice, however, was enormous loss and suffering among the affected trades. For months the moulders stood out before the country as dogs in the manger. In a vain attempt to coerce their employers they have punished not only themselves, but scores of other trade unions and tens of thousands of trade unionists. They have broken contracts, spurned the decisions of arbitrators, defied their leaders, and presented collective bargaining in its worst possible light.

Though the national phase of the strike lasted only a few months, it had previously passed through a local stage of

longer duration. Its real beginning was in September, 1918, when the Dowlais and Ebbw Vale moulders—a class which includes engineers, fitters, blacksmiths and boiler makers—obtained an advance of ten shillings a week. This came on top of a series of rises and bonuses, which had been going on throughout the war. The pre-war standard which had been in force since 1911 was 32s. per week. In 1914 it had been put up 27 $\frac{3}{4}$ per cent. In 1918 it was 32s. per week plus 91 per cent., plus $\frac{1}{3}$, plus the Winston Churchill 12 $\frac{1}{2}$ per cent., plus 5s. per week. The net value in money of all these percentages was £3 13s. 7d., besides which every householder had a coal allowance worth 6s. a week in the days of cheap coal, but much more valuable now.

The big fight started on July 1st, 1919, with a demand for a fresh increase of fifteen shillings per week. The standard then was 32s. plus 106 $\frac{1}{2}$ per cent., plus $\frac{1}{3}$, plus 12 $\frac{1}{2}$ per cent., plus 5s.—altogether £3 18s. 7d. per week of 47 hours. At first only about 10,000 men were affected, and they nearly all belonged to a small union operating in Monmouthshire and the Western border of Glamorganshire. As the dispute proceeded two other unions were drawn in, but they also were relatively small. At this time there was no trouble with any of the big engineering societies. They were still working under war conditions and punctually fulfilling their engagements. Later on they had to join in the general rally of the trade unions in support of the moulders, but it was done unwillingly and with a bad grace.

The masters had special reasons for putting their foot down against this fifteen shillings demand. Between 1911 and 1919 moulders wages had increased 150 per cent., and another fifteen shillings would have brought them up to the five pounds a week, which was then the ideal pay that South Wales unionists had set their hearts upon. In the next place

small unions are never popular in big works. Directors and managers greatly prefer to deal with large societies controlled by leaders at once reasonable and responsible. They chafe under the demands upon their time of a plague of small unions, who often compete with and crab each other.

In this case they gave fair notice to the moulders of resolute resistance. The chairman of the Ebbw Vale Company took the opportunity of the annual meeting of his shareholders to lay the facts before them and make the intentions of the Board perfectly clear. On the same day he made a last effort to avert the threatened strike. Failing in this he shut down a large portion of the works next day. A few weeks later the Dowlais Company followed suit. This was the beginning of a fight to a finish, which, after four months of conferences, correspondence, heated controversy and arbitration tribunals, ended in a decisive victory for the masters. It was, at the same time a victory for legitimate trade unionism over the illegitimate sort.

The moulders had been doubly foolish, first in challenging one of the most powerful combinations of employers, and then in not playing the game. In their obstinacy they sacrificed the interests of the nation and of labour generally to those of a very small class. They thought they held the key of a key industry and could use it at their pleasure for their own benefit. On a small scale they repeated and emphasised the object lesson which the railway strike gave to labour generally. They went through the same farce of successive ballots beginning with big strike majorities and ending in discreet submission. Altogether four ballots were taken between August, 1919, and January, 1920, with the following significant results.

AUGUST, 1919.

For a strike for a 15s. wage advance	...	17,234
Against		2,161

OCTOBER.

For a provisional settlement on the basis
of stabilisation of wages until next

September	...	...	...	...	1,678
Against	...	...	...	...	27,938

JANUARY 8, 1920.

For the acceptance of a 5s. wage increase	...	9,631
Against	...	16,718

The terms of the offer on which the final ballot was taken were substantially the same as those rejected on January 8. namely :—

- (1) An advance of 5s. a week in wages ;
- (2) Future wage adjustments to be determined by some method of avoiding disputes which is to be mutually agreed on ;
- (3) Work to be resumed by January 26, without victimisation on either side ; and
- (4) A joint conference to meet in the first week of February to discuss working conditions in foundries, including hours, with the view of fixing district standard minimum rates.

It took fully a year to overtake the arrears of work caused by this stubborn strike. Important shipping and general engineering work was held up for months for want of castings. Urgent orders had to be sent over to Belgium, where there was no eight hour nonsense going on. The Belgians are believed to have made millions out of this one craze of British labour. It was of this strike that Lord Weir wrote in his famous letter to the *Times* of September 16 (1920): "Millions of pounds worth of British engineering products were not being made and exported from Great Britain to-day because there do not exist enough members of the Ironmoulders' Society to enable the necessary castings to be made and the Ironmoulders'

Society will not permit ex-soldiers, disabled men, unskilled men or women to be trained and employed to assist in bringing about the out-put required, thereby increasing our exports, helping to pay for our imports and bringing down the cost of living."

Recently another key industry—the electric workers—was subjected to a dog in the manger strike similar to that of the ironmoulders. It was, however, so strongly resented by the scores of unions it would have penalised, that it broke down in the second or third week. The threat of a lock-out by the employers brought the revolvers to their senses.

CHAPTER VII.

THE INTERNATIONAL SOVIETS.

In 1920 the Labour War took a fresh turn and a much more serious one than had ever before been considered possible. Euphonious phrases like "divine discontent" and "labour unrest" had at last to be definitely dropped. The facts had gone far beyond them and were foreshadowing grave trouble for the world at large. It was suddenly realised that new factors had entered into the world-wide tragedy, among others the Russian Soviet. It differed from the traditional ideas of British labour in being distinctly and avowedly revolutionary. The Russian Soviets had originated in revolution. Their foreign propaganda was founded on revolution. Their foreign converts and adherents accepted revolution as the essential aim of all their activities. Their strikes were henceforth to be conducted by revolutionary methods and with revolutionary weapons. They were to be the friends and allies of revolution wherever it was met with.

The revolutionary strike was a special product of 1920. Its chief characteristic was its international scope and its world wide ramifications. All at once Europe, America and Asia found themselves enveloped in a web of political dishonesty, fraud and barefaced malignity. From Moscow to Calcutta on the East and to San Francisco on the West Bolshevik emissaries spread themselves for the purpose of fomenting

treason and sedition in other countries. Many of them plotted extensive schemes of sabotage, incendiarism and murder. Strange to say these first came to light in America. Fortunately the American police got quickly on their track and hunted them down before they could carry out the worst of their conspiracies. It was a bad turn, however, for Europe when thousands of the miscreants were shipped across here, including Trotsky. They at once resumed their activities in Russia, and from Moscow set in motion their revolutionary strike propaganda. So zealous and indefatigable were they that they soon had opened up negotiations with every important centre of proletarian labour.

Their success may well have astonished themselves. It was almost universal and so far it seems to have been greatest where it was to be least expected. That British labour should have been so quickly and extensively Bolshevised as it showed itself to be during the Coal Crisis of 1920 was beforehand quite incredible. Only one leading commercial State successfully resisted the Bolshevik plague—the United States. During the Bolshevik raid it had many strikes, some of them on a large scale and fiercely fought out. But as a rule they were fought fairly and with very little of the revolutionary mania, which characterised European conflicts of the same class. Both masters and men acquitted themselves creditably in the desperate struggles they went through. The men were more reasonable than usual in their attack, and the masters more outspoken in their defence. Vital issues were raised in a dignified way. They were discussed in a businesslike way with ample knowledge on both sides. Definite intelligible conclusions were arrived at and were frankly accepted by all the workers with some unimportant exceptions. The Americans won their Labour war as well as their Kaiser war.

Concurrently with our domestic outbreaks, a remarkable

series of foreign strikes were being engineered. In these also there was great variety. In France and Italy they were, for the most part, Bolshevik campaigns. Their international character was attested by an interchange of leaders among the various nations. Mr. Ramsay Macdonald spent several weeks in Italy, and returned home, it is said, highly satisfied with the result. In France, the moderate men managed to hold control of the movement, and to preserve it from extreme measures. The biggest fight of all was the American Steel Trust's trial of strength with the Steelworkers' Federation. The Chairman of the Steel Trust, Judge Gary, has always been a champion of the "open shop," and he fought the battle on that vital issue—fought and won it hands down.

At one time New York was completely held up on the water front. Longshoremen, carmen, ferrymen and boatmen all went out together, and the city came within sight of famine. Ocean steamers could neither get out or into the port, and thousands of passengers were stranded. Such an intolerable situation could not last long, and an appeal to the public spirit of the longshoremen brought them back to work. Meanwhile, a still more serious danger threatened. The failure of the steelworkers in their fight with the Steel Trust brought another formidable union into the field. The United Mineworkers of America held a convention, at which an ultimatum to the coal owners was drawn up and issued. Its principal demands were for a 60 per cent. increase in all mine wages, a limit of six hours a day for labour underground, a five day week, with time and a half for overtime and double time for work on Sundays and holidays, together with general improvements in the conditions of labour. If an agreement was not reached in time for ratification and to become effective by November 1, a general strike of all bituminous miners in the United States was automatically to ensue on that date, and might be extended

to the Canadian coalfields if the International Executive Board so determined.

In some of its features the labour situation in America compares badly with our own, but in one or two essential respects it is greatly superior to ours. Strikes are fought out with more ruthless violence than British public opinion would tolerate, a fact which may be due to the large foreign element in American labour. On the other hand they are not resorted to so frequently or on such frivolous pretexts as they are by English and Welsh labourers. They are invariably fought in a serious spirit, after due deliberation on both sides and with a clear issue, well understood by the great body of the strikers. One supreme issue dominates most of them—the “open shop.” This was the main issue in the metal workers’ strike of September, 1919, against the United States Steel Trust and the Bethlehem Steel Company.

The protagonist of American labour is Mr. Gompers, President of the American Federation. While Judge Gary, the Chairman of the United States Steel Corporation, was explaining his policy in New York, Mr. Gompers was stating the labour case in Washington before the Senate Inter-State Committee. His chief grievance was the refusal of the big steel companies to recognise his claim to represent the men or to negotiate for them respecting wages or conditions of labour. He used the steel strike as a means of explaining organised labour’s insistence on the right to strike. “When employers say there is nothing to talk over, when they refuse to meet representatives of labour, when they say that these representatives represent nobody, how else can they be convinced than by a strike?” he declared. He thus described the stand taken by Judge Gary in the present dispute. “I wrote to him last June. The letter remains unanswered to this day. He treated us in a flippant, autocratic fashion.”

Judge Gary took up the challenge of the miners and declared the Bolsheviks to be the real enemy behind the strikers.

"You," he said, "who know the issues know full well that if the strike succeeds, probably it will be the beginning of an upheaval which might bring upon all grave and serious consequences, and you know that the questions involved in a strike led by an acknowledged Revolutionist are higher than the interests of the Steel Corporation. We do not know what is in front of us. I am not an alarmist ; I am an optimist. Certainly I have the good sense to speak optimistically on pessimistic subjects, but I want to say that this is a very serious period in the world's history, and I hope it is not critical. I hope that statements in reference to the distribution of propaganda dealing with doctrines of anarchy and Bolshevism have been exaggerated, but there is such a propaganda, and there are men, I am told, distributing the literature of the I.W.W., and receiving pay from funds sent here by Russia. We must open our eyes to the situation and protect our property and social structures against it."

The doctrine of the "open shop" has been most clearly stated, and most strenuously upheld, by Judge Gary. During the big strike of September, 1919, he thus expressed himself to a number of American journalists :—

"I believe the Board of Directors of the Corporation cannot negotiate or confer with Fitzpatrick or his associates. The Board of Directors are the servants of the Corporation, selected to represent the interests of the stock-owners and the employees, the majority of the latter of whom he believed did not belong to the Union. The Corporation is under great obligations to the general public concerning the issues of the present strike. I will say for myself that questions of moral principle cannot be arbitrated or compromised upon, and in my opinion such questions include the present unfortunate struggle. I

also think that we cannot negotiate or confer with Mr. Fitzpatrick and his associates as Union leaders concerning our employees, whom these gentlemen have volunteered to represent."

A few weeks later Judge Gary's premonition of Bolshevik plots behind the strikes was completely justified by a series of amazing revelations made by the United States police. These clearly proved that American Labour had become entangled in a world-wide network of revolutionary schemes. To what extent the "I.W.W." were parties to these plots can only be guessed, but it appeared certain that between them the Russian and American revolutionaries threatened ruin not only to the industries of the country, but to the very existence of civilised society. The effect of this discovery on American citizens was electrical. From the Atlantic to the Pacific public opinion recoiled in horror and disgust from the new labour gospel. Most of the pending strikes collapsed and the year closed with a great burst of industrial prosperity.

During the profiteering scare and its accompanying outcry against trusts, the American Big Five had an opportunity of saying a few words in self defence. One of their number—Armour & Company—when their managing director in London, Mr. Cabell, was interviewed on the subject, gave an unqualified denial to the popular rumours of their combining to keep up prices. Mr. Cabell said an appalling amount of misapprehension prevails in Great Britain about the American packing industry. "For instance, it is the commonest thing to find the 'Big Five' described in the British newspapers as 'the American Meat Trust.' No such thing as an American meat trust exists. The 'Meat Trust' is simply a figment of the imagination. The 'Big Five' are wholly independent concerns. They buy against one another; they sell against one another; they are competitors from the word 'go'; they have their own

plants, their own directors, their own organisations and methods, and they watch one another and fight one another as business rivals do all the world over. Last year, he said, the Chicago packers delivered to the American Government and to the Allied Governments nearly £50,000,000 of food products. There was scarcely a word of complaint as to the quality, and not one word of criticism on the efficiency of the service.

At home the great strike year had a less sensational close, but it also left labour in a chastened mood. After repeated failures, Mr. J. H. Thomas got a bare majority of his four hundred thousand *cheminots* to accept the Government's scale of post-war wages. It will land the country in another heavy increase of expenditure, but for that a *quid pro quo* has been obtained in the surrender by the men of the lightning strike—their crowning effort of lawlessness. Mr. Smillie, with his mixed army of Bolshevists, Syndicalists and trade unionists, is again in the limelight but is in imminent danger of extinction.

Against many losses and much damage done to the industries of the nation one great gain may be set. The year of strikes has changed the issues and re-arranged the combatants. The supreme issue is no longer Labour *versus* Capital. It is Labour *versus* Society. It is no longer left to private employers to regulate wages and conditions of labour. The politicians have tried it with such ghastly results that the sooner they are pushed out the better. Society, as represented by consumers, investors, brain workers and orderly citizens of all classes, will now have to take Labour in hand and draw the line at its illegal and illegitimate courses. Let it be given in full measure every right, every privilege, every exemption enjoyed by ordinary citizens, but nothing more. A class of

privileged law fakery and law breakers is a danger and a disgrace to any civilised community.

The marked contrast between the course of events in France and the United States and the proceedings of our own Bolsheviks demands thoughtful attention. While our railwaymen were presenting the worst possible example of direct action, the Labour party in France were repudiating it by sweeping majorities. With them the problem is one of organisation, rather than of politics, much less of revolution. At the Lyons Congress of the Confederation Generale du Travail, M. Jouhaux, the leader of the anti-Socialists, scored a great triumph over his enemies and detractors. He closed the proceedings with an eloquent avowal of his faith in sane and rational measures.

"My conception of our movement," he said, addressing his Socialist detractors, "is not the Parliamentary, but the Trade Union conception. I do not speak the same language as you do What I mean to say is that all the factors involved in production should be associated socially in the social interest as opposed to private interest. The brain of the technical worker and director is as indispensable as the labour of the workman. We intend to maintain them in association." M. Jouhaux stated that Labour must work out its own salvation. "It matters little to me if you continue your political revolution," he added, again addressing the Socialists. "What matters to me is the realisation in the realm of Labour of the economic revolution."

By a vote of 1,633 against 324 with 43 abstentions, delegates representing two millions of French Trade Unionists signified their confidence in the Executive of the C.G.T. and the patriotic policy they have pursued during the war, thus inflicting a crushing defeat on the avowed disciples of Lenin

and Trotzky who made such a desperate attempt to secure control of the organisation.

A strike which has not received the attention it deserved was arranged for July 27th, but ended in a fizzle. It was to be an Inter-Allied Strike, and its principal participators were to be Great Britain, France and Italy. M. Jouhaux, the President of the French Confederation Generale du Travail, came over to London to consult with the British labour leaders about it. At that time, Messrs. Smillie and Thomas had other fish to fry. There can hardly be a doubt that they were already preparing for the grand *coup* which came off on September 26th. M. Jouhaux was himself against it, so though the French demonstration was held according to programme it turned out a complete fiasco.

But the Italian celebration was a political success, thanks to English help. Mr. Ramsay Macdonald took it in hand, and stumped Southern Italy on its behalf. The Italians must have thought their English friends peculiar people in sending an English labour leader to Italy to assist in a celebration which they had themselves disclaimed. Of course, the whole movement was Bolshevik, but the French trade unionists faced it much more squarely than our own Smillies and Thomases. M. Jouhaux gave the Bolsheviks in his Confederation all the fighting they wanted. He opposed their demonstration on Labour Day (May 1st), which ended in rioting and bloodshed. He refused the appeal of the metal workers to follow up the strike of the automobile trades by proclaiming a general strike in June.

These successive defeats had maddened the Bolsheviks by the time that the annual Conference of the Confederation came round. Fierce attacks were made on M. Jouhaux and his anti-Bolshevist colleagues in the Administration, but they were all triumphantly repelled. This result was the more

remarkable and unexpected because of the large number of new members among the voters. During the war the membership had increased from two hundred thousand to over two millions. Not only were most of the new recruits anti-Socialists, but the war had converted many former Bolshevists to saner views.

France, Germany, Italy and even Austria had sporadic outbreaks of labour unrest. The three principal French ports—Marseilles, Bordeaux and Brest—were all blockaded together. At Brest the shipowners gave in first, but this only brought out the metal workers. At Marseilles the port was almost completely closed for some days, there not being a single sailing. Mails for Algeria, Morocco, Egypt, and the Near East, accumulated on the quays, while nine thousand passengers kicked their heels in hotels. There was also trouble in some of the mining districts, notably in Lorraine. The Lorrainers, notwithstanding their joy at being restored to France, were not satisfied with their working conditions and indulged in lightning strikes.

Mr. Ramsay Macdonald's Italian strike did not have a very lasting effect. In some trades the masters stood for months against the unreasonable demands of their men. The metal workers were kept out for four months until at last the Workers' Council at Milan threatened to proclaim another general strike in their support. Italy was doubly unfortunate in this crisis, which was more political than industrial. The Socialists were particularly aggressive, and had acquired a dangerous influence in the army, so much so that the King was said to have threatened to resign if he could no longer trust his troops to obey orders.

These Italian metal workers seem to be terrible fellows and their employers must have some bad times with them. They are never more than a few months quiet, and every time

they break out they have something new in strikes to present to the labour world. Their latest outbreak was in the summer of 1920, and proved quite brilliant in its way, far more so than the Ramsay Macdonald fiasco. It had one very novel episode, and in spite of its gravity a rather amusing development. The masters, losing patience with their tormentors, locked them out. Whereupon the strikers took possession of six hundred factories and sat tight. The masters and the local authorities were so completely nonplussed that they could only appeal to the Government, but the Prime Minister, Signor Gioletti, was away in Switzerland on holiday, and he also sat tight.

Several weeks passed before a countermove was attempted by the authorities. On September 7th a telegram from Rome announced that :—

“ The metal workers’ crisis is still unsolved, although a solution is becoming more imperative every day. The *Popolo Romano* says that many factories in Milan are occupied by workmen busy preparing arms and showing signs of anarchist organisation. The general public is alarmed at the continuation of the conflict, as it is feared that the men, not having received their pay, may become exasperated and resort to drastic reprisals, such as the destruction of machinery. This would mean the ruin of Italian industries and the unemployment of hundreds of thousands of men. It is also feared that the metal workers may appeal to other workers and thus involve the public services.”

A bad feature of the Italian strikes is that their injuries and annoyances are no longer confined to natives. Foreign visitors have now to share them. Travellers run up against them on the railways and in the hotels. As a rule they have not lasted more than a few days at a time, otherwise they would have been intolerable. As it was they did a lot of damage to

the tourist traffic. Apart from the nuisance of delays and interruptions in travelling there is a great change for the worse in the personal relations between travellers and natives, especially railway and hotel attendants. In the winter season of 1920 a series of carefully organised strikes began at Nice and travelled all the way down through Italy to Naples. Railwaymen, cabmen, hotel cooks, waiters and chambermaids all took turns at lightning strikes.

The first big attack was bought off with an advance of 20 per cent. on the existing wages. It was soon followed by a demand for another 30 per cent., but this was too much to pass on to the public as the first rise had been by inserting a new item in hotel and restaurant bills of 10 per cent. for service.

It might have been thought that these liberal additions to their wages and tips would have a sobering effect on cooks and waiters, but the very opposite happened. The hotel servants' union had now become an active and powerful body. It has a syndicate of its own, the executive of which is always holding meetings and formulating new programmes. It is the most thorough and unscrupulous exponent of the "lightning strike." And the inevitable effects are quickly following. Tourist travel, both in France and Italy, is suffering from it. American trippers have not been much in evidence lately. Australians on their way out or home stop off for a few days at Naples or they may run up to Rome and Florence for a week. English visitors are being choked off by the absurd passport restrictions, and the rapid growth of hotel charges. This extends to the small shops, which act as parasites of the hotels. They are becoming extortionate. Even old masters—imitation ones, of course—have risen to fancy prices and cobbling is charged for as a fine art.

The Roman cobbler is an indisputable profiteer. He keeps

his section of the "vicious circle" spinning merrily, as a visitor of my acquaintance lately discovered. She sent out a pair of shoes for some small repairs, expecting that they would cost a few *lire*. By the time that the bill passed through the hands of the hotel porter and the concierge, it had mounted up to 32 *lire*—10s. 8d. at their rate of exchange, and 26s. at the full rate.

It holds true in Italy, as everywhere else in the strike area, that "the small fleas have smaller fleas to bite 'em." "Lightning strikers" have to submit all round to doses of their own medicine. When they get a fresh 30 per cent. rise, their greengrocers, their macaroni shops, their tailors and the whole crowd of their purveyors at once screw them up 50 per cent. or more. An intelligent concierge with whom I discussed the subject put it in a nutshell: "What is the use," he said, "of my getting 30 francs a day, when it costs one 45 francs a day to keep my family? I was better off with 10 francs a day than I am now."

Two deplorable effects of the strike mania are very noticeable both in France and Italy. One is the immense variety of imported foods there are on sale, and the other is the extortionate prices demanded for them. Chocolate, for example is much dearer in France than in England, and still dearer in Italy than in France. The prices of fancy cakes, confectionery, preserved fruits, and luxuries of that class amount to absolute blackmail. During the war they were forbidden, but the ban was removed some months ago, and now hundreds of shop windows are again crammed with them. What used to be known in London as "Italian warehouses" are the standard type of food shops in Rome. They are perfectly free from the many legal restrictions imposed on bakers. While caviare and *pate de foi gras* can be purchased at all hours of the day, bread cannot be bought after four o'clock in the afternoon. Long before that time, however, it is generally sold out.

Labour and bread between them are creating almost insuperable difficulties for all Continental Governments and nowhere more so than in Italy. Another deplorable effect of the strike mania is an increasing exodus of Italian labour. Men and women who cannot find employment at trade union rates must emigrate or starve.

CHAPTER VIII.

LABOUR COUNCILS OF ACTION.

This much must be said for our Labour Leaders—they have been much smarter politicians than the ordinary middle class parliamentarians. The latter, being unable to do their own fighting, gave themselves into the hands of clever exploiters, who made cynical and unscrupulous use of them. From Lloyd George and Carson downwards their leaders were political gamblers out for spoil. They did the plotting and the fighting while the coupon crowd did the voting. This was parliamenteering at its very worst—a system foredoomed to failure. The Labour Party, though only a small section of the House, was bound, sooner or later, to get the upper hand of them. It was in earnest: it believed in itself: all its members were keen propagandists: it seized every opportunity of attack: it was never discouraged by failure.

Against this persistent irresponsible and fanatical faction, Mr. Lloyd George had for several years to carry on a single-handed battle. They attacked his domestic policy, his Irish policy, his finance and his fiscal doctrines. During the war they badgered him at every turn and crabbed his every action. At last they got him in a tight corner over the Russian Soviets, and forced him to throw over France in favour of the Bolsheviks. Anything more repugnant to English sentiment and principle can hardly be imagined, but in politics any stick is

good enough to beat the enemy's dog with. Besides this, occasion gave the Labour leaders a chance to use successfully their most formidable weapon. Some of them may have boggled at using it on behalf of Russian Jews and other sworn enemies of the British Empire. Anyhow, it gratified them to "down Lloyd George," as they elegantly put it, and to drive another nail in the coffin of the capitalists.

The "down tools" policy had not been a conspicuous success when used against private employers. As a rule it cost more than it was worth. But in the Sinn Fein campaign of 1920 a new and more effective use was found for it. The Irish railwaymen refused to run trains with soldiers or military supplies on board, and in the end they carried their point against the distracted officials in Dublin Castle. This suggested a bright idea to Mr. Smillie and the Bolshevik members of the Independent Labour Party. They started an outcry against handling munitions destined for the Polish armies. It started like wildfire and spread through every section of the Labour Party. It had two very plausible recommendations from the labour standpoint. It was a splendid rallying cry for the labour forces, and it furnished a very plausible pretext for wholesale strikes.

At the time both the miners and the railwaymen contemplated another national hold-up. But they knew that three-fourths of the people would be against them and would very possibly pay them out at the next general election. This danger might, however, be avoided by starting a war scare and posing as the saviours of the country from the warlike designs of the Government. Mr. Lloyd George's tortuous policy toward the Bolsheviks gave them all the handle they needed, and his admission of Bolshevik agents into London supplied them with a free field for "direct action." They became open and avowed confederates of Kameneff and

Krassin. As such they raised an alarm against the Government alleging that they were preparing to attack Russia and to plunge this country into another war, which would be bloodier and more disastrous than the last one. Mr. Churchill, our ill-starred Secretary for War, gave some colour to their declarations by writing an article in an evening paper, which appealed to the Germans for their help against the Bolsheviki.

In vain the Prime Minister denied any intention of quarrelling with the Bolsheviki, much less of making war on them. An emergency Conference was summoned of all sections of the Labour army, and to appropriate accompaniments of "The Red Flag" and the "Marseillaise," resolutions were passed: (1) Approving and endorsing the move of the three national bodies, in forming a "Council of Action" to deal with the present situation arising from the policy of the Government towards the Russo-Polish war; (2) hailing with satisfaction the Russian Government's declaration in favour of the complete independence of Poland, and pledging itself to resist any and every form of military and naval intervention against the Soviet Government of Russia; and (3) authorising the Council of Action to take any steps that may be necessary to give effect to the decisions of this Conference and the declared policy of the trade union and Labour movement.

These three resolutions taken together in the light of all the circumstances under which they were adopted were barefaced acts of revolution and usurpation. The Conference, casting aside its proper and understood functions as a labour legislative, resolved itself into a political convention, and as such issued its edicts not only to its own members, but to the Government and the Country. Mr. J. H. Thomas, with characteristic insight, candidly recognised this salient fact. "If this resolution," he said, "is to be given effect to it means a change in the whole constitution of the country." (Loud

cheers renewed again and again.) The Labour Party were not only revolting, but they set up a new and rival government. They gave their Council of Action *carte blanche* to carry out the labour programme, whatever it might be at the moment. And the Council of Action promptly proceeded to execute its mandate. It took charge of the Bolshevik negotiations and called Mr. Lloyd George to heel, an order which he obeyed without a murmur. Its members had so long enjoyed the free run of Downing Street that they could not be shut out even when it came to demand the Prime Minister's head in a charger.

The mandate has not yet been tried very severely on the House of Commons. That part of the programme demands caution. The Government could—and ought to—counter it by a dissolution and a fresh election. But there may be various methods of precipitating the final crisis. The Government may elect to await the result of the miners' ballot. It would also form a suitable subject for a plebiscite. Another would be the question of Soviet or no Soviet. The Labour Party distinctly committed itself to the Soviet principle. It did so both directly and indirectly. That was involved in its recognition of the Russian Soviet, and its alliance with it. Moreover, several leading members of the Conference are avowed Sovietists. This of itself was equivalent to a declaration of war on the State, which has been already translated into action. The miners' strike will be open war, not only on the State, but on the entire community.

Though the Conference orators and their resolutions were strictly confined to Russia and Poland, it was clear enough that they were intended to have also a domestic application. The Council of Action, if not made a permanent body, will be sufficiently elastic to be revived at any future moment when its services may be required. In effect it will be permanent.

The latest escapade of the Independent Labour Party had two important effects in foreign countries. In France it produced another rift in that very delicate instrument, the Anglo-French Alliance. M. Millerand responded to it in characteristic fashion by promising help to General Wrangel—a promise which stimulated the General's army to a fresh effort and a very successful one. The British Soviet received another snub from the United States. There appeared in next morning's news, along with the reports of the Soviet Conference, a long despatch from President Wilson repudiating their Russian policy and strongly supporting M. Millerand. This impressive document thus characterises the Lenin and Trotzky regime in Russia :—

“ These facts, which none dispute, have convinced the Government of the United States against its will that the existing regime in Russia is based upon the negation of every principle of honour and good faith and every usage and convention underlying the whole structure of international law : the negation, in short, of every principle upon which it is possible to base harmonious and truthful relations, whether of nations or of individuals.”

Assuming as we safely may that these stern reflections of President Wilson expressed the sentiments of the American people they indicate an awkward dilemma for the British Bolsheviks. They will find themselves cut off on the one hand from the best class of American labour and on the other from the best class of French labour. Their dream of internationalism will be farther than ever from realisation. Their relations with American labour have never been particularly cordial and they are in danger of becoming less so in future. British and American labour methods have essential differences which our Soviet cranks are doing their worst to aggravate. During the past year many difficult labour problems have been

amicably solved in the States, while with us they have been going from bad to worse.

The British public were very slow to realise the full significance of the appointment of a Council of Action by the Labour Party. It very slowly dawned upon them that this was the most ominous move the Party had yet made. At the same time it was the most signal victory its extremists had won over the moderates. The consequences involved were tremendous, not for the politicians only, but for the United Kingdom and the Empire. It lifted the Labour movement out of the sphere of ordinary politics on to a revolutionary plane, where anything may happen which has hitherto been considered impossible and even unthinkable. Its authors admitted that it threw down a challenge to the Constitution, but it did much more than that. It threw down a challenge to all the sane, loyal, and law-abiding elements in our social system.

The Lenin gang at Moscow had proved to the satisfaction of intelligent British Socialists that a Council of Action *a la Russe* is the most cruel and deadly oligarchy ever yet invented. But up to a certain point it may be irresistible. The first lesson we have to learn regarding it is that constitutional weapons against it are of little use. Already the Prime Minister, the Cabinet, and the House of Commons have shown themselves afraid to try conclusions with it. They have exhibited no more fight than the Russian Duma did against Kerensky and his Soviets. They may be put aside as possible defenders of the Crown and the Commonwealth against Labour usurpation. Then, what is the alternative? There is but one, and it is to fight the Smillie Soviet with its own weapons. Long ago our loyal citizens should have seen that the disloyalists were going ahead of them in every branch of organisation and fighting equipment. This last stroke of theirs puts the coping stone on their offensive power.

Against a proletarian Council of Action, with six millions of excited men and women behind it, the propertied classes of the country will be like sheep until they organise themselves for the occasion. Their Institutes of Bankers, their Chambers of Commerce, their Boards of Trade, their Stock Exchange Committees, and their Railway Shareholders' Associations render admirable service to the public in peaceful times, but in the stormy times ahead of us they may be less of a help than a hindrance. They contain plenty of good material for a Council of Action if it were picked out and formed into a fighting force. Our commerce, our industry, and our finance have all admirable leaders of their kind, and men who can deliberate calmly, judge wisely, and reach sound conclusions. But unfortunately they stop there. A very small percentage of their resolutions ever goes any farther. They would be quite incapable of taking any of the lightning decisions which a Trade Union Congress fires off like bullets from a machine gun.

But lightning decisions are to be the rule in future, and no man incapable of taking them *and carrying them out* need aspire to be a leader either on the propertied or the proletarian side. Owing chiefly to this lack of aggressiveness employers of labour have hitherto been at a great disadvantage in strike conflicts. Every trade is well organised in itself, and lately several successful attempts have been made to form federations. But a central head to these federations is still lacking. A Supreme Council is needed to concentrate the efforts of the federation leaders, to consult with them on questions of national consequence, to decide on the appropriate action for meeting national crises, and to see that it is taken by the proper authorities. Such a Council should have chiefly to do with economic questions, but it should not be confined to them. Few crises are purely economic. In running their course they develop political, military, and administrative ramifications.

In fixing the powers of the Supreme Council the most difficult problems will be their relation to the political and military authorities. But that is no new problem. Political, military, and administrative bodies have been more or less in conflict all through English history. The Labour Council of Action has not hesitated to rush in where City churchwardens feared to tread. The churchwardens will have to screw up their courage as near as they can to the Labour pitch. They must not hesitate to accept responsibility or to enforce it on all under them. Shirking responsibility has been the ruin of our politicians, and it has not been a strong point, either, with our business leaders. It will be their principal danger in the new régime—the test by which they will be chiefly judged. They are not at all likely to err as did Mr. Lloyd George in assuming responsibility too readily and leaving the consequences to chance.

A Council of Action which would worthily represent British employers of all classes and interests will require as its primary and principal qualification a strong sense of responsibility. For the rest it will have to be in most respects the reverse of the régime under which we have lived and suffered for the past dozen years. It will have to retrieve an inglorious record of political plundering and blundering. Its task will not be to build up Mr. Lloyd George's new heaven and new earth, but to rebuild as much as possible of the Old England which is fast disappearing under the avalanche of Soviets and other labour oligarchies.

Its first task will be to restore the civil and moral authority which for glorious centuries was the backbone of our race. Its next will be to provide for the maintenance of 47,000,000 of a population in physical health and comfort. Its third will be to reduce with all possible speed the overwhelming liabilities of the nation, to cut down its prodigal expenditure

and re-establish its solvency. In order to achieve these indispensable objects a certain amount of harmonious co-operation between all classes and sections of the community must be secured. It is not merely Labour and Capital that must work cordially together and deal fairly with each other. Wherever there are different interests and different opinions there must be mutual consideration and love of justice. Without these the present cat-and-dog conditions of society must be perpetuated, and go from bad to worse until we reach the ideal hell for which Lenin and others are avowedly working.

There is noble work for patriotic peers and parliamentarians to do in the City if someone will only bell the cat and pick up the challenge so truculently flung down by the Bolsheviks. With or without a leader the people themselves will take it up and make mincemeat of its Bolshevik brigands.

CHAPTER IX.

“LABOUR'S FOREIGN POLICY.”

British foreign policy is not lacking in humour, but it has never before attained such a level of pure comedy as in the Anti-Polish stunt of the United Labour Conference.

From beginning to end it was perfectly stage-managed, but the cream of the joke was the seriousness of the actors. They thought they were playing an heroic role in European history, when they were only being fooled by their Russian friends Lenin and Trotsky. For years they had been bursting with new theories of foreign policy. They scorned the secrecy and loathed the insincerity of old-fashioned diplomacy. They pined for an opportunity to show how international affairs ought to be conducted. At last it came to them with a rush. All at once the world found itself struggling with unsolved and apparently insoluble problems. On the East the Bolsheviks and on the West Sinn Fein appealed to them for help and they boldly waded in.

The Bolsheviks had, of course, to come first. They were the Independent Labour Party's trump card. First because they were, habit and repute, revolutionaries. Second, they were avowed and bitter enemies of Great Britain and the British Empire. Third, they were deadly rivals of the newly restored Republic of Poland. Fourth, Poland had turned Conservative and was making herself an unpleasant neighbour

for the Bolsheviks. Fifth, Poland was a god-child of the League of Nations, which is equally hated by the Bolsheviks and their British confederates. But behind all these general motives there was a personal one—a burning thirst for revenge on their former leader and as they now thought betrayer, Mr. Lloyd George.

By finishing the war without them and frequently in spite of them, Mr. Lloyd George had given them mortal offence. Next to the capitalists he was their arch-enemy. At the last General Election (December, 1918), he had smitten them hip and thigh and they now saw a chance to turn his own weapons against him. He had gone to the country as the hero of peace with honour. They thought they had only to accuse him of warlike designs against Russia in order to go to the country as champions of peace. At first their peace stunt had a magnificent success. All the different sections and division of the Labour army rallied to the call. Never was there such unanimity, such enthusiasm, such triumph at a Labour conference. The leaders imagined themselves already seated in Downing Street and issuing their edicts to a grateful community. That there should be no delay when the time came for taking over the government from Mr. Lloyd George, they appointed A Council of Action—a Lenin and Trotzky idea. Next morning the Council delegates, Messrs. Adamson and Gosling, rushed across to France to receive the expected surrender of M. Millerand. Unfortunately for them, M. Millerand is not a Lloyd George. Instead of surrendering he gave orders to the French police to escort the quixotic diplomatists back to Boulogne and see them on board a Channel steamer.

Then the strangest thing of all happened. The Red Army, which was going to swallow Warsaw at a mouthful was itself caught by the Poles between two pincers and crushed to powder. In seven days from the issue of the United Labour

warning to the Government against helping the Poles with men, munitions or advice, the Russians were in panic-stricken flight back to their own country. The dramatic suddenness, rapidity and completeness of the finale made it seem ridiculous. The new-born British Soviet had eclipsed all previous revolutionary fiascos. It had falsified all its political theories, made a burlesque of its new methods of diplomacy and proved itself a blind leader of the blind.

If "United Labour" is capable of learning wisdom from this absurd experience it will close down its foreign department and concentrate all its energies on homework. It has been going downhill both in reputation and efficiency ever since it got mixed up with international communists and anarchists. Had it remained on the national lines of the early trade unionists British trade would have been in a much better position to-day, and British labour would have been much happier and more contented. It is the foreign leaven in our trade unions that has done the mischief and one of the most urgent duties of the House of Commons is to have it undone as speedily as may be. But little redress can be expected from the present House or from any other that is hypnotised and humbugged as the last two Parliaments have been by Asquithian Liberals.

Since the Labour election of 1905 our Legislature has been no longer British, our Government has been no longer British, our foreign policy has been no longer British. Our public affairs have been leavened with foreigners. The best parts of our foreign trade have passed into the hands of foreigners and much of our home trade is following them. The streets of London, West End as well as East End, are being internationalised. But the most serious fact is the alienising process that is going on in our trade unions. Our trade unionists make a shibboleth of the "open door." They welcome all and sundry of the riff-raff of Europe. It is thanks to them that Kameneff

and Krassin and their innumerable brood of Bolshevik spies have the full run of London. The purgation of the country from anarchist aliens will have to begin with the trade unions, and it were better that the unions should begin voluntarily than have to do it under contentious compulsion.

That some of our most powerful labour combinations not merely trade unions, but others masquerading under specious names—are honeycombed with sedition there can be no longer a doubt. Mr. Smillie did them a bad turn when he tried to make fun of the Duke of Northumberland for the amusement of the Sankey Coal Commission. The Duke turned the tables very neatly on Mr. Smillie by showing up his Bolshevik connections. A few months after the report of the Commission was issued he presented the readers of the *Morning Post* with a complete and impregnable indictment of our Bolshevik sedition-mongers. All the facts now published by the Duke ought to have been known to the Home Office months, if not years, ago. The men themselves are well known. Some of them have been already in the hands of the police. But with a few exceptions they have had the free run of the country—we might almost say of the Empire—not only to preach but to practise sedition on an immense scale.

The Duke has shown us how numerous and convenient were their opportunities of direct plotting. But a still more amazing part of the story, if it could be fully unfolded, would be their indirect activities among Societies which profess to be purely British—Trade Unions, for instance, and branches of the Independent Labour Party. Many of these are not only being soaked in Sovietism, but fraternity with aliens is one of their fundamental principles. At the Leeds Trades Union Congress formal resolutions were passed entitling foreign workers to the same rights and privileges as native

workers. They not only have equal privileges as members, but they are equally eligible to sit on committees and hold offices. The latter privilege they make free use of, so very free that often they virtually boss the committees. As the Duke has pointed out, some of our worst strikes have been engineered by aliens.

There is no difficulty in the world for a Sovietist or a Sinn Feiner, or any other breed of anarchist no matter what his nationality, getting into a British Trade Union. Once in, he can talk any amount of treason to his fellow members. He can hatch the most trasonable plots, plan the most dangerous strikes, and preach the most destructive doctrines. Between them the Home Office and the Trade Unions make the manufacture of rebels a safe and pleasant occupation. It is the same all through the Empire, except in Canada and Australia. These two Dominions have made genuine efforts to keep themselves free from the taint of Bolshevism. But they do not go so far as the French, who exclude aliens absolutely from membership of trade societies. Years ago they had similar trouble to what we are having now, but they struck at the root of the evil, and cut loose from internationalism.

This is really what it comes to—internationalism is the enemy. A striking proof of the danger is to be found in a very unexpected quarter, namely, in the records of the League of Nations. One of the first public acts of the League was the International Labour Conference held at Washington in October, 1919. With a view to improving and assimilating Labour conditions throughout the world it adopted a number of economic and hygienic resolutions. One of them is entitled a "Recommendation concerning Reciprocity of Treatment of Foreign Workers," and it reads as follows:—

"The General Conference recommends that each member of the International Labour Organisation shall, on condition of

reciprocity and upon terms to be agreed between the countries concerned, admit the foreign workers (together with their families) employed within its territory, to the benefit of its laws and regulations for the protection of its own workers *as well as to the right of lawful organisation as enjoyed by its own workers."*

The words italicised are in substance a repetition of the resolution which had been adopted by the Trades Union Congress at Leeds two years before. The Labour Delegates at the Washington Conference seem to have got it smuggled in when the professors and phoilsophers were not looking. At the time this happened Mr. Lloyd George was believed to be coquetting with Lenin. Suppose he had struck up a "business" agreement with him, including the above reciprocity clause giving Russian workers "the right of lawful organisation as enjoyed by our own workers," where might we have been now? Under the benevolent auspices of a Home Office always tender to aliens, Soviets would have been flourishing all over the country. Every Trade Union lodge and every branch of the I.L.P. might have been a hot-bed of Bolshevism. Mr. Smillie would have been in a fair way to get his three hundred Soviet M.P.'s, which he says is all that he needs to upset the British Empire.

In his negotiations with Messrs. Kameneff and Krassin, the Prime Minister made it one of his preliminary conditions that there was to be no Soviet propaganda here. This is a favourite tag to his anti-Bolshevist speeches, and the House always rises to it. But there is one Russian who must enjoy it even more than British M.P.'s. That is Lenin himself. Like a Roman augur with his tongue in his cheek, how he will laugh at Mr. Lloyd George's belated anxiety to stop Bolshevist propaganda after hé and his Home Office have for years been giving it every facility!

Nationalisation is at present the most fearsome bogey word in British politics, but there may be worse still to come. The Independent Labour Party are now thinking more about internationalisation than about nationalisation. In their attacks on capital they assume that the national issue has been virtually won. At their conferences and demonstrations they say a great deal more about Russia and the Bolsheviks than about Lancashire and the gas workers. It has greatly puzzled the ordinary public why this should be so. Still more puzzling is their choice of foreign favourites. Why, for example, should they lavish so much enthusiasm on Russian Soviets and be so bitter against similar institutions in Hungary? Why should they sympathise so strongly with strikes in Italy and so little with strikes in France? Is not the only conceivable explanation this—that in Russia and Italy labour is openly revolutionary while in France and Hungary it is conservative. Do British trade unionists appreciate that vital distinction?

The most important factor in our labour situation is the extent to which it has been internationalised, and the various degrees of its internationalisation. Up to a certain point its internationalisation is complete. Constitutionally, foreigners are admissible into British trade unions and have all the privileges of native members. Successive Conferences have laid down this rule and repeatedly confirmed it. Not only so, but a large proportion of foreign Socialists and Communists have been elected to high office in English and Scottish Unions. They frequently figure among the organisers and leaders of extensive strikes. The head of the London police strike two years ago was a notorious German Communist. The ring-leaders of the Shipbuilders' meeting on the Clyde were Russians and Irishmen. Of course, there is reciprocity in these movements. Not only do foreign Bolsheviks take a hand in our labour troubles, but British Bolsheviks return their visits

and repay them in kind. Mr. Ramsay Macdonald was the precursor of Malatesta in Italy and has had as much to do with the mining and railway revolts which are occurring all the time on the Peninsula. His tour of the Italian factory towns in 1918 wound up very appropriately with an attempt at a national strike.

In justice to Mr. Ramsay Macdonald it should be admitted that his Italian crusade was made openly and squarely, but there have been many communications between British and Continental Bolsheviks of which that cannot be said. The other day a big British cat was let out of the Russian bag. The official organ of the Socialist Labour Party (*The Socialist*) published the text of a speech made last year by Trotsky to the Petrograd *Soviet*. It contained a passage which must have made a good many of our labour oracles feel uncomfortable :—

“ We must strain ourselves to an even greater degree than we have hitherto done. Our enemy is not yet broken. A few days ago we got a secret message from England. Our friends, the Communists, there write : ‘ Your progress in the heroic struggle against counter-revolution fills our hearts with the greatest admiration. Many forces in our land which were inert up to the present are now becoming active. Everything goes to show more and more that England will soon stand on the threshold of the Revolution.’ ”

After that there can be no doubt as to the ultimate extent of the Bolshevik programme or as to the active share in it which our Labour Party are taking. If they make no reply to Trotsky certain conclusions will have to be drawn—first, that his statements are correct ; second, that they were aware of his bloody and anarchial designs ; third, that they intend to follow him to the frightful end ; fourth, that they endorse all his damnable doctrines, including his declaration that “ the struggle the Bolsheviks have embarked upon is on a

universal scale, and will not be decided on the Finnish or Esthonian front. It will be decided on the front of the whole world."

Concurrently with the Bolshevik crusade against England similar operations were carried on in the United States and Canada. But with very different results. The American police hunted down the foul miscreants, exposed their plots and shipped thousands of them home to Russia. The American workers did not lag behind their Government in these bold and effective reprisals. They are even going farther for a movement is now on foot to limit the membership of trade unions to full American citizens. It is known as the "Citizenship" Amendment, and is to be put to the test at the annual Convention of the International Typographical Union. If carried it will exclude all foreign subjects who do not intend to become naturalised citizens of the United States. The amendment also proposes that none but full American citizens may be employed as foremen, superintendents, or in any position which places them in a supervisory capacity over members of the Union. Existing members of the Union who are aliens are given ninety days in which to prove that they have applied for naturalisation. Failure to comply with this regulation will automatically put an end to their membership of the Union.

Here we have another remarkable proof of the tendency of the great human issues which are in future to divide mankind to become industrial rather than political or economic. Nowhere should such a change be so warmly welcomed as by the British people. Our politicians are completely played out and the only obstacle to getting them scrapped is the difficulty of finding successors for them. That the trade unions will have to debolsheise themselves also admits of little doubt. Their idiotic rule giving foreigners of every race and nation equal privileges with native Britons has had a disastrous effect both

on their morals and their operations. It has immensely increased the number of strikes, has embittered the old friendly feeling between masters and men, and has placed the trade of the country at the mercy of pot-walloping politicians, who seem to be shedding not only their brains, but also their self-respect and their moral courage. To be fair to Lenin and Trotsky, they are not Parliamentarians. They have at least the courage of their convictions.

PART III.

ITS FINANCIAL EFFECTS.

CHAPTER X.

WAR TAXES.

What a ghastly irony it is that the more men think and talk of peace the darker the shadows of war fall on the world. Year by year for the past half century war has been becoming a more dominant factor in our national life. It governs our industries, our politics and, above all, our finance. A century ago it was an almost negligible quantity. To-day it overshadows all else. The Army and Navy once the special victims of Radical economists have millions and tens of millions showered upon them. War taxes such as we never heard of before are still being levied in the second year of peace.

British war finance has undergone four successive stages of evolution. In the first wars were paid for by contributions in money or in kind. In the second as wars enlarged in numbers and extent borrowing had to be resorted to for eking out the taxes. The third stage was the banking age in which war expenditure was largely provided for by banking operations. The fourth is the distinctive feature of our own day—a combination of taxes, loans, banking credits, with floods of paper money. In the following four chapters these various forms of war finance are briefly described.

The two greatest military events in human history were the two world wars—the first against Napoleon, and the second against the Prussian Kaiserdom. They were also the two

greatest economic events and as such they may for generations to come furnish economic science with its most complex and difficult problems. The British, of all people in the world, are most interested in both the world wars. They were the dominant factor in both cases. Neither war could have been won without the British fleet nor could either of them have been financed without the British Treasury.

The British Treasury, in its turn, owes its historical prestige to the many and various sources of revenue it has enjoyed for centuries past. While Continental States were still restricted to a few feudal imposts and personal services, England was developing new forms of property and income which could be made to contribute to the necessities of the Crown. And the Crown was never slow to avail itself of the opportunities they offered.

This may be safely inferred from the copious vocabulary of our fiscal system. With its copiousness it combines another notable feature. Most of its terms have sinister signification. They are frequently associated with political trouble. The most important of them originated in revolutionary movements, including the Restoration of 1660, which was as important a fiscal as a political change. Feudal dues and services were superseded by rudimentary taxes of the modern order. Along with them came a new monetary system, which was destined to change the whole structure of British economics. Taxes hitherto paid in goods and services, and the broad basis of which rendered them steady had now to be paid in the two precious metals, gold and silver, both of them notoriously fluctuating in value. A very chequered experience of two centuries and a half has created grave doubts as to the wisdom of the change. No doubt, the old feudal system had to be abandoned as far as regards its machinery—that had been entirely outgrown, but in its fundamental principles there were

points worth preserving. After this long interval of time, it is still a question if some of them would not be worth reviving.

One of the most notorious of our Lloyd George taxes was little else than a clumsy resurrection of a feudal impost. During the Lloyd George regime we had two sets of land taxes, one the oldest and the other the youngest of our property taxes. Both of them were bagatelles compared with the huge levies which specially represent the new finance. The yield of the old land tax during the year 1912-13 was £728,000, and of the Lloyd George Land Values Duties £437,770. Between them our oldest and our newest land taxes produced less than a million and a quarter, the exact total having been £1,166,000. Fully half as much again as that is now got out of the inhabited house duty. Income tax, death duties and stamp duties have overwhelmed all previous calculations. It gave the land taxers a bad shock when Mr. Austen Chamberlain, in his Budget of 1920, threw over the Lloyd Georgian land duties, but their failure was too absolute to be any longer disguised.

Income taxes, onerous and oppressive as they have become, formed before the war only a small part of the aggregate taxation levied on property generally. In the United Kingdom they were not much more than one-half and in most foreign countries they were considerably less than half. In the year ended 31st March, 1913, the gross receipts from Inland Revenue duties proper were £87,171,000, of which income tax (and super-tax) yielded £48,123,000, or about 55 per cent. The second largest item was the Estate duties, with a total of £25,776,000; the third, Stamp duties, £10,147,000; and the fourth, Inhabited House duty, £1,959,000. These are all property taxes, and all fall upon the same class of people, namely, the Upper Middles. During the war they have nearly all been enormously increased. The weight of the war burden,

which has fallen on property is, therefore, very much greater than the mere increase of income tax would indicate.

It has long been a matter of pride, both with the British taxpayer and the British taxgatherer, that our fiscal system is so compact and at the same time so elastic. This double merit becomes more than usually conspicuous when there is war financing to be done. It is the small group of taxes above numerated, that has to bear the brunt of our war expenditure. They are essentially war taxes, for they are rarely, if ever, raised unless in war times, and they are seldom reduced after the wars. It is literally true, therefore, that war is the principal factor in our national growth. It shapes our financial system, our fiscal system, our industrial system. It determines for the time being and possibly for generations after, the value of labour, the rates of wages, the cost of living, and the vast network of economic problems connected therewith.

A complete reconstruction of our fiscal system is likely to be one of the chief tasks of the coming generation of British Statesmen. It has broken down all round, and the worst breakdown of any is in the principal taxes. Even before the war they were being subjected to intolerable strains and were developing glaring anomalies. Our income tax laws had become a bye-word for illogical and unjust provisions. Their lumping together the incomes of husband and wife, their charge on incomes earned abroad, their distinction between earned and unearned incomes, their clumsy methods of graduation, their intricate and complex rates, their frequent changes, had reduced to chaos a subject which ought to be simplicity itself. The war found it in almost the last stage of unintelligibility.

Laws that are always being reformed excite a natural suspicion against themselves. No laws have suffered so much

from this sort of suspicion as those relating to the income tax. For over thirty years they have been subjected to the most diverse criticism. Not only has Parliamentary skill been lavished upon them, but public and private criticism has always been busy with them. Every Chamber of Commerce in the United Kingdom has its Income Tax Committee, and most of them have tried their hand at drafting model income tax bills. Commissions and Select Committees innumerable have carried out interminable inquiries, one of the most interesting of which was lately concluded. It may be the prelude to drastic reforms.

Of late years a marked change has come over the scope and character of these income tax inquiries. Originally their chief concern was to mitigate the harshness and injustice of certain features in the law. Latterly the sole object of proposed amendments has been to squeeze more money out of the taxpayers. The ideals of the early income tax reformers—Hubbard, Leatham, Whitley and Sir Charles Forster—were equitable assessments and fair charges. Unfortunately, they never succeeded in convincing the House of Commons of the value of these requisites. Their principal effort—the Income Tax Administration Amendment Bill of 1884—remains, however, a standing testimony to the great loss the country sustained through the rejection of that well intended measure.

Its preamble is a much needed lesson to the income tax cormorants of our own day—"Whereas it is expedient that the principle of an equal and equitable assessment be applied in levying all rates and taxes, whether local or imperial : And whereas in levying local taxation the principle is generally adopted of charging the annual values of property at their net or rateable value that is upon the value of the occupation after deducting from the gross value all outgoings necessary to maintain the condition of the hereditament : And whereas

it is contrary to the nature of income tax that it be charged both on the interest which is income and on the capital which produces the income : And whereas industrial earnings on the same principle require previous to their being charged with income tax an abatement in compensation of the exhaustion of productive power inseparable from labour."

The Bill made certain proposals to carry out these three objects—first to charge income tax on the rateable value of lands, houses, tenements and hereditaments ; second, to exempt from taxation of annuities that portion which represents capital ; third, to grant an abatement of one-third on industrial earnings derived from labour, apart from the use of capital in any profession, office or occupation of profit. The abatement on land without buildings was to be 5 per cent. : on buildings with land, 10 per cent. : on buildings without land, 16 $\frac{2}{3}$ per cent. A special abatement of one-third was to be made on mills and factories. In the accompanying schedules examples were given of how the proposed assessments might operate. One of them was an income of £1,230 derived from a trade employing a capital of £15,000.

This income would be subject to two separate charges—first on the interest on the £15,000 of capital at 4 per cent., and next on the "labour gains" estimated at £630. The one-third abatement on the latter (£210) reduced the amount chargeable to £420. This combined with the £600 of interest raised the total amount assessable to £1,020, or £210 less than the gross income. A professional income was treated as entirely "labour gain," and received the full abatement of one-third. This apparently was the origin of the distinction subsequently drawn between earned and unearned income. The earlier form will be generally admitted to have been more logical as well as more intelligible than the later one.

Such was the ideal income tax of our grandfathers. Had

its advocates succeeded in realising it they might have saved us from a great deal of the indescribable mess in which continuous pottering by a long series of Chancellors of the Exchequers has landed this fundamental part of our fiscal system. Perhaps we ought to be thankful to them for the thoroughness of the mess they have made. Had it been less intolerable we might have had to struggle on with it for another generation or so. But, alas! our most patient and long-suffering of taxpayers can bear no more. They have reached the limit of human endurance. A peace tax of 6s. in the £, plus a super-tax and death duties which may in some cases absorb the bulk of the remaining 14s. ceases to be taxation and becomes confiscation.

To future generations an amazing feature of our war finance will be the calm assurance with which income taxes were piled up by our Chancellors of the Exchequer, and the equally calm resignation with which they were borne by the taxpayers. Various explanations of this submissiveness may be offered. The nineteenth century politicians had their full share of responsibility. Different sets of them found the income tax an easy and convenient hen roost to rob. It was invariably resorted to for the payment of our innumerable war bills. It had to stand in the breach for free breakfast tables, educational reforms, Cobdenite tariffs and social legislation at large. Before the world war came on people had grown quite accustomed to seeing the "idle rich" sacrificed on the income tax altar.

One of the clearest analyses of our war finance in the nineteenth century has been furnished by Mr. Sydney Buxton. It was repeated in a number of forms and the figures may, therefore, be assumed to have undergone frequent revision. The one before us was issued in 1902 at the end of the Boer War and its range of comparison covers the Crimean and the Napo-

leonic campaigns—by far the most costly that had been known or even dreamed of at that time. How petty they look now beside the thousands of millions which in the forcible language of Lord Incheape we are “plunging and revelling in”? Only one of the many financiers who had the handling of nineteenth century wars proved equal to the task. Mr. Gladstone’s financial control of the Crimean War shines out brilliantly against a mass of military muddles.

In these days of hundred million Votes of Credit, what would be thought of a European campaign being started with a vote of ten millions all to be raised by additional taxation and only six millions to accrue in the first year? This very moderate sum carried the Crimean war into its third year, when it outran all the Gladstonian traditions and doctrines. In 1855 the Budget began with war votes of 23 millions, to which 5½ millions had to be subsequently added. But formidable as this looked on paper, it resolved itself into a comparatively small burden of new taxes, and these were very equitably distributed among the various classes of taxpayers.

Even the Income Tax was mercifully treated by Sir Charles Wood, Mr. Gladstone’s successor. It remained at 7d. in the £, the figure at which it had been re-imposed by Sir Robert Peel in 1842. And then it was to be still regarded as a war tax, the same as Pitt had intended it to be in the original Act of 1798. The idea of silently and surreptitiously transforming it into a permanent tax belonged to a later generation. Even during the greater part of the Crimean War and almost to the end of it Peel’s Income Tax was not properly speaking a war tax. Until the financial year, 1856, it remained at 7d., and then it made a jump to 16d. At the same time it was counter-balanced by a selection of very moderate increases in customs and excise duties, which

challenge interesting comparisons with our later experiences of a corresponding kind.

A revolutionary effect of the Cobdenite campaign of the nineteenth century was to shift the chief burden of our war expenditure from food taxes on to property taxes or as another school of economists distinguish them from consumption taxes on to direct taxes. The former group may be still more precisely described as grocery taxes. They came in with the Crimean War to which they liberally contributed. A heavier call was made upon them in the Boer War, but even these were bagatelles compared with the world war duties.

In the Boer War grocery taxes received another important development, nearly a dozen different groups being formed of them if we stretch a point to include wine, spirits and tobacco. In the three years of this war (1900-3) fully 8 millions extra duty was collected from customs duties, and 10 millions from excise. The variety of channels through which it was obtained is worth taking note of. Anyone engaged in the serious study of war finance should find the following figures instructive. They show in the first place how slow and difficult to enforce are war taxes, which have to be got from the general public. In monarchical days a new tax had always to be mortgaged to the moneylenders and advances obtained on its first year's produce. Thus Sir Michael Hicks Beach's first year of his "grocery taxes" might have been pledgable in advance on the following basis :—

BOER WAR "GROCERY" TAXES, 1901-2

<i>Customs.</i>				1901-2.
Sugar	...	...	...	£6,399,000
Tea	...	...	...	5,793,000
Cocoa, Coffee, etc.	...	...	...	483,000
Currants, Raisins, etc.	...	...	...	380,000
				----- 13,055,000
Spirits	...	...	...	4,790,000
Wine	...	...	...	1,449,000
				----- 6,239,000
Tobacco and Snuff	...	...	...	10,567,000
Other Duties	...	...	...	81,600
				----- 10,648,000
Coal (Export)	...	...	...	1,314,000
				----- 1,314,000
				<u>£31,256,000</u>

Excise.

Beer	...	...	...	£13,718,000
Spirits	...	...	...	18,491,000
License : On	...	...	...	2,212,000
,, Off	...	...	...	2,013,000
Glucose and Saccharin	...	...	...	64,000
				----- 36,498,000
Railway Duty	...	...	...	349,800
Patent Medicines	...	...	...	7,400
				----- 357,200
				<u>£36,855,000</u>

An easy measure of the ever-increasing cost of modern war is to be seen in the subjoined, examples of the war taxes by which our three latest great wars—the Crimean, South African and World War—were financed :—

	Crimea, 1856.	South African, 1901	World War, 1920.
Tea, lbs. ...	6d. to 9d. ...	4d. to 6d. ...	1s.
Sugar, cwt. ...	2s. to 12s. ...	2s. to 4s. 2d. ...	13s. 4d. to 25s. 8d.
Tobacco, lb. ...	...	3s. to 3s. 4d. ...	50 per cent. <i>ad val</i>
Beer, barrel ...	...	7s. to 8s. ...	100s.
Spirits, gal. ...	...	9s. 6d. to 11s. ...	52s. 10d.
Income Tax ...	7d. to 16d. ...	9d. to 1s. ...	3s. to 6s.

The most singular feature of our world war finance was the readiness and even cheerfulness with which the heaviest war taxes on record were promptly paid. They began gradually but toward the end they rapidly increased. The last peace year (1913-14) produced tax revenues of 197 millions sterling. The first full year of war (1914-15) raised the amount to 290 millions. The second year (1916-17) made it 514 millions. For the third year 570 millions was anticipated and well over 600 millions actually received. The fourth and final year yielded 784 millions. In round figures 2,188 millions of taxes were contributed to the cost of the war, a fact very creditable to the taxpayers and equally discreditable to the spenders of the money.*

Sound war finance has at least five and we might say half a dozen primary requisites—first, military efficiency ; second, administrative efficiency ; third, rigid economy ; fourth, wise and prudent taxation ; fifth, systematic and strenuous efforts

*According to the weekly abstract of the *Economist* the revenue between August, 1914, and June 30, 1920, was 4332 millions, but this evidently includes non-tax revenues as well.

to repair the breach caused by the war in the national prosperity. Judged by all these tests the Crimean War comes out decidedly better than the other two. Instead of sinning in the usual British fashion by extravagance, it went to the other extreme of stinginess. No doubt a greater liberality would have been cheaper in the end had it been combined with wise spending, but that was invariably the chief desideratum. One thing at least Mr. Gladstone did see to—that his War Office never had money to burn.

The Chamberlain Budget of 1920 ought to have been the first step toward *bona fide* peace finance, but in two important respects it proved a great disappointment. By acceding to the demand of the miners who were earning £10 or £12 a week to have the exemption limit raised to £250 a year it virtually released three-fourths of the wage earners. On the other hand, by raising the Excess Profits Duty to 60 per cent., instead of abolishing it as had been expected it throttled the comparatively small class on which the trade and industry of the country mainly depended. Should the present indications of a commercial slump be verified the Chamberlain Budget of 1920 will be something to remember.

The worst complication at Somerset House was provided by the colliers. They objected with characteristic energy to the payment of income tax and they thought they had discovered an easy means of evading it. It was to raise the limit of exemption from £130 to £250. Somerset House countered this move by publishing a return showing that it would break the back of the income tax altogether. Of the 5,346,000 persons with incomes above the old exemption limit of £130 a year, no fewer than 4,093,000 are assessed at between £130 and £250. The effect of raising the exemption limit to the collier's £250 will, therefore, be to cut off four-fifths of the re-assessments. At the same time it will release more than a third of the total

taxable income. The latter is estimated at £1,745,000,000, and £657,300,000 of it is under £250 a year.

But the £250 a year exemption limit had some compensations. It started a fresh line of inquiry into the mysteries of income tax law, in course of which some useful discoveries were made. *Inter alia* it has been found that only about a half of the incomes under £250 are actually chargeable. Of the 2,490,000 returned as between £130 and £160 all but 900,000 escape. The other 1,590,000 are "entirely relieved by the operation of abatements and allowances," the latest of which are Mr. Chamberlain's £40 for wives and £25 for each child under sixteen. Of the 1,110,000 with incomes between £160 and £200 nearly 30 per cent. (290,000) go free, while 820,000 are chargeable. Of the 493,000, between £200 and £250, 50,000 escape, and only 443,000 become liable for the tax. The total number chargeable under £250 was 2,163,000.

The total taxable income under £250 has been already given as £657,300,000. From such a handsome sum the Chancellor of the Exchequer ought to be able to raise a respectable revenue, but seven-eighths of it passed through his fingers untouched. Only £68,060,000 of it paid income tax and that at the lowest scale. Last year the (1918-19) net produce of the tax was £7,886,000 or at the rate of 11 per cent., equal to 2s. 2d. in the £, as compared with the middle class taxpayers' 6s. in the £. On the whole £657,300,000 of income under £250 the chargeable rate was only $1\frac{1}{4}$ per cent, or 3d. in the £. When the colliers get their £250 a year minimum they will pay little, if any, war tax.

CHAPTER XI. OUR WAR DEBT.

The British war debt of to-day is not only the greatest in point of magnitude that history records, but it exceeds all others in its infinite ramifications. It divides and subdivides itself indefinitely. It is mixed up more or less with the war debts of all the other belligerents. Our own direct liabilities are, therefore, only a part of the huge total. In addition we have to take account of a great mass of indirect liabilities—guarantees for other war borrowers, trading liabilities, etc. So multifarious are the debits and credits which have got mixed up together that it may be questioned if the Chancellor of the Exchequer has a clear idea of the final balance. If he has he enjoys a monopoly of it.

Had it been foreseen what an enormous volume of borrowing would have to be done the idea might have suggested itself of keeping the war loan accounts entirely separate from current revenue and expenditure. The National Debt Commissioners properly re-organised and strengthened might have been put in charge of it. As an inevitable result of our war expenditure from loans and revenue being jumbled together in the same budget their relative amounts became a matter of conjecture and intricate calculation. In successive budgets beginning with 1919 more or less cryptic statements about the final cost of the war were made in Budget speeches.

Needless to say they did not decrease as they went along. On the contrary the terrible total kept on growing.

The first set of official figures were furnished by Mr. Chamberlain in the debate on the second reading of the Finance Bill, of 1919. He thus summarised the net cost of the war to date :—

“ After making the allowance usually taken for normal peace expenditure on the one hand and for debts due from the Dominions and Allies on the other hand and after taking account of other Votes of Credit assets, the net cost of the war to the Exchequer of the United Kingdom up to March 31 last may be estimated in round figures at 6,700 millions sterling.”

Later explanations made it clear, however, that large classes of civilian expenditure were excluded—losses of private property, municipal property, trades, etc., that had not been made good out of the Treasury. Presumably, these were expected to come out of the German reparations, and the Treasury was only charging itself with the naval and military expenditures proper. Neither was any of the pre-war debt being taken into account. Extras such as capitalised pensions, out-of-work doles, the huge losses on State Control and other gratuities might easily make up another thousand millions so that the popular estimate of eight thousand millions for our post-war debt may not after all have been far from the mark.

Having at last obtained some specific data—though only approximate and provisional—a commencement can be made with the elaborate comparisons, by which their manifold lessons are to be elicited. They may be used to compare :—

1. The cost of the world war with previous historical wars.
2. The total amount of the debt with the existing financial resources and credit facilities available for handling it.

3. To-day's financial resources and facilities with those of previous periods when new war debts had to be provided for.

4. The various methods by which previous war debts of magnitude were financed.

5. The economic conditions under which war debt financing has now to be conducted compared with the corresponding conditions of former war debts. These should include currency, banking, credit, international exchanges, commodity prices, the cost of living, the state of trade, the level of wages, the volume of national production, etc.

Roughly speaking, about a fourth of our war expenditure was paid for by taxation and the other three-fourths by loans. The fairness of these proportions has been hotly contested by economists and politicians, but the taxpayers themselves have not taken much interest in the question. It raises a considerable variety of issues, for example :—

Between the existing and future generations.

Between the taxpaying and the tax-spending classes.

As regards the relative cost to the State of the two systems of payment.

As regards their economic effects on the community.

As regards their international effects.

The broad distinction to be observed between war loans and war taxes is that the former carry interest and are consequently cumulative burdens on the borrower. At 5 per cent. interest a given sum doubles itself in fourteen years. If the 8,000 millions of debt bequeathed to us by the world war were allowed to run on it would amount in 1933 to 16,000 millions, and in 1947 to 32,000 millions. The 400 millions of simple interest will double the debt in twenty years. Even 5 per cent. interest appears to be too heavy a rate for the country to stand for any length of time. The Napoleonic

war debt consisted chiefly of 3 per cent. bonds and doubled itself only in twenty-three years as against our fourteen years.

Eight thousand millions sterling! Whether we try to conceive them as a sum of money or as a mass of "goods and services" they form an appalling total. How it was ever mobilised and redistributed in so short a time will puzzle the world for generations to come. But that is nothing to the final puzzle how it is to be liquidated. When we begin to conjecture where all the money can have come from we find ourselves afloat without either compass or barometer. Where could 8,000 millions sterling of new money and credit have been so rapidly raised? A preliminary answer is that a large part of it did not need to be raised at all. It was due to war prices, which doubled and often trebled the cost of both "goods and services" employed in the war. If the pre-war prices of, say, 1894, had been maintained all the way through the total war bill might easily have been a third less.

One of the clearest and most up-to-date statements of the national liabilities is to be found in the following extract from the circular of the London City and Midland Bank for August, 1920:—

"The net proceeds of all loans raised since August 1, 1914, amounted to 7,127½ millions on August 21, 1920, and subject to any unrecorded cancellations since the end of March last the National Debt then stood at about 7,739 millions. The pre-war debt was about 645 millions, so that since the beginning of August, 1914, the addition to the gross dead-weight debt has been 7,094 millions.

"Of the total about 1,222 millions is other debt, that is external debt less loans raised abroad by the deposit of Treasury Bills as collateral. The floating debt on August 21 amounted to £1,248,297,000, consisting of 28 millions of advances by the

Bank of England, £159,541,000 of advances by public departments and £1,060,756,000 of Treasury Bills."

As if to lessen the shock which such tremendous figures were likely to cause a few encouraging items of information were thrown in. In the current financial year up to August 21st there was an excess of revenue over expenditure amounting to 91 millions, which had been applied to the redemption of debt. Besides which receipts from Treasury bonds aggregating £10,198,000 had also been applied to the reduction of floating debt.

Now that we can form a definite idea of the ultimate amount of our war debt plans of liquidation may be practically considered. Already there are two opposite policies in the field—speed up liquidation with very little regard for the feelings or interests of the taxpayers and "ca' canny" liquidation with due regard for their financial capacity. In this connection nineteenth century financiers had a very safe and useful test of taxation. They asked themselves whether the proceeds of the proposed tax were likely to be made a better use of by the owners who had earned the money or by the spending officials whose only function was to spend it. Nineteenth century opinion was invariably in favour of the money earner, but twentieth century opinion has swung round in favour of the official spenders. A flagrant example of this perversion was furnished by the Chancellor of the Exchequer in his latest Budget (April, 1920). It is already evident that with his 60 per cent. Excess Profits Duty he greatly over-estimated the economic resources of the nation.

But whichever liquidation policy may be hereafter adopted it will have to be for generations and possibly for centuries to come the governing factor not only of our finance, but of our whole economic system. Neither pacifists not Bolsheviks will be able to alter that fact. Try as hard as they may to

escape the fundamental duties and burdens of citizenship they will only run up against them in new and more violent forms. No amount of juggling can get rid of a properly constituted national debt. It is a fixed economic burden on the nation, which all its citizens must help to bear—directly or indirectly, willingly or unwillingly. It will affect us in so many different ways and press on us at such a variety of points that it will seem as if we could never get away from it. The taxpayer will have painful conjectures as to how much more of his already attenuated income it is to take from him. The manufacturer will feel anxious as to the effect it may have in raising his costs of production and handicapping him in the sale of his goods. Even the bond-holders will not be able to follow its terrific growth with a perfectly easy mind, for immaculate as the credit of the British Government may be, it has its ups and downs in the market.

The most crucial standpoint from which our war debt can be judged is that of national resources. The question most frequently asked and discussed will be how far it trenches on the national wealth? Eight thousand millions of a dead loss! To what extent will our available resources be impaired by it? The most moderate estimate of these now current among the statisticians is £16,000,000,000; consequently, they will be mortgaged to the tune of fifty per cent. While the bulk of the mortgage is held at home its pressure may not be so very acute, but it will cause grave disturbance of business and the process of readjustment will be tedious and painful. We may be reminded that the country has gone through the same ordeal more than once before and emerged from it stronger than ever—why should it not muddle through again? But every fresh struggle has been more severe than any of its predecessors, and the one now coming will be the worst of all.

The economic pressure of a loan varies with the character

of the borrowers and their capacity to bear it. If they should be a wealthy community, who can meet the annual charge by cutting down their expenditure, repayment may be made without serious impairment of their financial resources. The practical effect of it is to divert a certain portion of their expenditure from private to public channels. The same person may get back as a bond-holder what is taken from him as a taxpayer. But only a fraction of the community will be bond-holders, while nearly all of them will have to pay a share of the war tax. It is distinctly wise for all who can afford it to take a share in national war loans provided the security be at all reliable. The saving process is a healthy thing for the saver himself, and still more so for the community. It is even better for the loan as the more buyers the higher its market value and the stronger the national credit. Later on there will be more chance of a profitable conversion, in other words exchanging the bonds for new ones at lower rates of interest.

Another cause of variation in the economic pressure of war loans is the distribution of wealth in the borrowing State. A comparatively small circle of wealthy taxpayers can be operated upon much more readily and effectively than a larger circle of middle class people, while these again will be easier dealt with than millions of working men. To get the same amount of taxation out of the third-class as out of the first might entail treble labour and expense. In general terms it is true that the more widely wealth is distributed the more difficult it will be for the State to enforce direct taxation on a large scale. The up-to-date "worker" seems to be determined not only to get everything in sight, but to hold on to it as far as the State is concerned. He has for many years made himself a thorn in the flesh of the old-fashioned capitalist, but now that he is becoming a capitalist himself he may want to have it both ways—the highest price for his labour and the

highest rate of interest for his money. It is a poor look-out for unfortunate taxpayers who have neither "organised labour" to sell nor easily earned money to lend.

A consideration which should afford us a ray of hope and encouragement in view of the tremendous load of debt we have to shoulder is that previous war debts have invariably been borne with greater ease than was at first expected. This was due mainly to the peculiar fact that the annual charge of the debt seldom increased in proportion to the capital amount. Instead of the two keeping step as might at first blush be assumed the annual charge always lagged behind. There were even cases of the annual charge diminishing concurrently with a normal increase in the debt itself. Of the two it is the more reliable measure of the real cost to the community of a heavy mortgage on its future income.

In the year after the battle of Waterloo (1816) the National Debt stood at £846,000,000, on which interest and sinking fund amounted to £32,100,000. Between Waterloo and the Crimean War a comparatively small reduction was effected in the capital amount and a very large one in the annual charge. The former fell from £846,000,000 to £794,713,000 a reduction of only 6 per cent. But the annual charge fell from £32,000,000 to £25,662,000, a reduction of 20 per cent. At the close of the Crimean War the capital amount of the debt was up again to £826,000,000 or within £20,000,000, of what it had been in the year after Waterloo. But the annual charge had not increased at all; it was, in fact, £117,000 down, having declined from £25,662,000 to £25,545,000. Between the Crimean War and the Boer War a great reduction took place, both in the capital amount and the annual charge. This was, in fact, the only period of the nineteenth century in which either the Government or the country troubled itself much about paying off debt. The capital sum was lowered from

£826,000,000 to £634,337,000, and the annual charge from £25,545,000 to £17,600,000, reductions of 23 per cent. and 30 per cent respectively.

Eight hundred and twenty-six millions sterling of debt sounded enormous, but seventeen and a half millions of interest and sinking fund seemed a negligible quantity. Between the close of the Boer War and the outbreak of the world war it became still more negligible. On the 31st March, 1914 the funded debt was down to £586,718,000 and the permanent charge for interest was only £14,787,000. In the ninety-eight years from Waterloo only £260,000,000 of debt had been liquidated, but the interest charge was little more than one-half what it had been—£17,600,000 against £32,100,000. This reduction was due partly to the running out of high interest bearing stocks and partly to conversions into new stocks at lower rates of interest, notably Lord Goschen's great scheme of 1888. It could only have been effected by careful and prudent administration of the national finances, such as was steadily pursued throughout the whole of the nineteenth century, only to be abandoned early in the twentieth. During those ninety-eight years the national credit improved from a $3\frac{3}{4}$ per cent. to a $2\frac{1}{2}$ per cent. basis. It will be seen that the £32,100,000 of interest paid on the £846,000,000 of debt outstanding in 1816 averaged almost exactly $3\frac{3}{4}$ per cent., while the £14,787,000 paid on the £586,000,000 of 1914 was slightly under $2\frac{1}{2}$ per cent. More had been gained by strengthening the national credit than by actual liquidation.

If we attempt to apply the lessons of the nineteenth century to the borrowing operations of to-day, what may first strike us will be the relatively high interest charges on our new war loans. We began in 1914 with a $3\frac{1}{2}$ per cent. loan at 95, which was followed up in June, 1915, with a $4\frac{1}{2}$ per cent. issue at par. The third issue was that much criticised

Anglo-French dollar loan negotiated in New York on terms which work out about $6\frac{1}{2}$ per cent. Afterwards, Treasury Bills were offered over the counter on a $5\frac{1}{2}$ per cent. basis, supplemented with unlimited issues of Exchequer bonds at 5 and latterly 6 per cent. Then came Mr. Bonar Law's 1,000 million issue—financially speaking the greatest success of the war. Mr. Bonar Law, by a spirited appeal to the patriotism of the people, got them to subscribe enthusiastically to a loan for which the London bankers had asked 6 per cent.

The Treasury, in order to be in a safe and comfortable position ought to have been able to see its way for four or five years ahead. Its immediate liabilities should have formed a reasonable proportion of its *bona fide* revenue, while its liabilities falling due within the first five years of peace should not have exceeded an amount that could be easily funded. Neither of these prudent rules had been observed by any of the three Chancellors of the Exchequer, who had the direction of our war finance. On June 1st, 1919, on the eve of the issue of Mr. Austen Chamberlain's Funding Loan the floating debt amounted to 1,739 millions sterling, to which should be added about 350 millions of currency notes, making a grand total of 2,089 millions.

The Chancellor budgetted for an income in the year 1919-20 of £898,500,000, but included in this was £300,000,000 of Excess Profits Duty. Deducting that the income proper would be only £598,500,000, or little more than one-fourth of the floating debt. In other words the national income was mortgaged in the form of day to day liabilities for nearly four years. The mortgaged revenue included an income tax of six shillings in the pound, customs duties equal to 11 per cent. of the whole of our imports, and excise duties averaging £2 per head of the population of the United Kingdom. The

surplus revenue left to the people after paying all these imposts would probably be less than one-half of the floating debt.

Nor was that the full tale of our imprudent war borrowing. From 1920 onward short loans of innumerable sorts and sizes would be falling due. The Treasury's own estimate of the amount maturing in the four years from April 1, 1920, to March 31, 1924, was about 1,000 millions sterling. The floating debt and these short term bonds combined made a tremendous total of 3,089 millions; fully five times the amount of the Treasury income and probably three times as much as the aggregate incomes of the people after deduction of taxes, rates and other public burdens. There could be no better illustration than this of the extent to which the country was living on the credit of the Government.

Never in the world's history has there been such rapid, continuous and diversified borrowing as the British Treasury practised in these four memorable years. Never has any country launched so many different kinds of loans: varying in rates of interest, rights of conversion, dates of repayment, and other details. We have at this moment more than a dozen distinct issues more or less on active sale, but only one of them enjoys the advantage of a specific provision for supporting its market value. The Bonar Law £1,000 million loan of 1917 has attached to it a guarantee fund of one-eighth of one per cent. per month, in other words $1\frac{1}{2}$ per cent. per annum—to be used for purchasing the stock when it falls below the issue price. This is sometimes spoken of as a sinking fund, but it is not necessarily so.

No proper sinking fund was attached to any of our earlier war loans owing apparently to the idea which has turned out to be sadly mistaken that a big funding scheme with an adequate sinking fund would be more easily carried through at the close of the war. A worse time for any experiment of this

sort could hardly have been chosen than the week in which Mr. Chamberlain floated his combined Sinking Fund and Victory Loans. Between Bolshevism at home and abroad, strikes on the railways and in the coal fields, shrinking export trade and declining sterling exchange, there was little heart left anywhere for investing in Government securities. The Government itself was at a heavy discount. From now onwards debt of one kind or another will be maturing at an increasingly rapid rate and in increasing amounts, so that the financial strain, instead of being relieved at the close of the war will for a time be intensified. This, in fact, will be the first real test that our financial strategists, official and unofficial, will have been subjected to. So far they have only had to rake in money and shovel it out again. It came in faster than they could shovel it out, but when National War Bonds, War Savings Certificates, Treasury Bills and other debts come tumbling in faster than they can be renewed will our financial strategists be prepared for them? To be quite plain, are they making any preparation for them? Are they thinking out a plan for refunding the thousands of millions of short loans soon to begin falling due? Are any of the Reconstruction Committees at work on this most crucial problem either of war or peace? Evidently not, for there is no mention of finance among the schemes of reconstruction of which the air is full. It is merely a text for Treasury bench speeches.

The only part of our war loans that comes straight home to the public is the annual charge for interest. It is seen coming out of taxes and seriously diminishing the funds which might otherwise be productively employed. In drawing comparisons between financial periods this distinction is specially true. It is the yearly interest rather than the capital of the debt that counts. In comparing the present post-war situation with that of a century ago a very useful lesson may be learned

from Consols. They had the distinguishing merit of being the cheapest money ever raised by the British Government. At the same time they were the most popular of British securities. The British public stuck to them for a hundred and fifty years with hardly ever a grumble. Most of that time they did not yield more than half as much as our present war debt does. It is conceivable that money may again become so cheap as to admit of converting five per cents. into four or even three per cents. That apotheosis is, however, still far off, and there may be many a spasm to go through before it is reached.

Our war debt, being the pivot round which all financial discussion resolves it is not surprising that two opposite extremes should be observable among its critics. What may be distinguished as the British banking type incline overmuch to purely monetary views, while the tendency of American bankers is to minimise that view and lay stress on economic considerations. There is a certain amount of truth in both habits and the question is how to give each of them its due weight. Proper allowance has also to be made for the educational value of the training which the study of such problems affords. Not only as mental discipline, but as practise in the chief branches of economic science, public finance is an inexhaustible subject.

The most ominous features of our war debts are the large sums due abroad. Some of these are under special arrangements with foreign Governments, known only in Downing Street, and perhaps not to many people there. The most important of these is, of course, the thousand and odd millions due to the United States. If the House of Commons had had half an eye to its duty as guardian of the public purse, it would have fusilladed the Chancellor of the Exchequer with questions as to the form and character of these liabilities. Are they long or short dated or have they any date? Can they be put on the

market by the United States Government, or has it undertaken to hold them until the British Treasury has had time to right itself? Senator Simmons, the Chairman of the Senate Finance Committee, caused a sensation in December (1918) by announcing that :—

“ With the close of the war the United States would have nearly \$10,000,000,000 (£2,000,000,000) in bonds of the Allies, the best securities in the world, and the bonds, being marketable, could be utilised to relieve the people from taxes in the future.”

The Senator added, “ Considering the bonds which we shall get from the Allies, and which we can market whenever we desire to do so, amounting to \$10,000,000,000, and considering the money we shall get by way of reparation and indemnity from our defeated foes, I think this great burden of taxation will, in the last analysis, not be so heavy as we now sometimes think it will be.”

On this statement the Washington correspondent of the *Morning Post* remarked that :—

“ It came as a surprise to the Senate because it was understood when the Treasury was given authority to make these advances that the Allied bonds would have the same dates of maturity as American bonds, and would be held in the Treasury until they were redeemed by the issuing Powers. As a matter of fact, bonds were not issued by England, France, and Italy and delivered to the Treasury, but accredited financial agents of the Governments of those countries entered into financial obligations with the Secretary of the Treasury. Whether the Washington Government is enabled to require that bonds shall be substituted for these obligations, the Treasury having the privilege to dispose of such bonds as it may see fit, is not known, but this is to be inferred from Mr. Simmons's statement, and as Chairman of the Finance Com-

mittee, in very close touch with the Administration, it is presumed that he speaks with authority. If the Treasury has the power either to demand payment or to sell Allied bonds, obviously it is a factor of considerable importance in the consideration of future financial arrangements."

It is an obviously awkward position for the British Treasury to have 1,000 millions sterling of foreign debt hanging over its head without knowing when it falls due or how soon repayment may be demanded of it. Partly because of this uncertainty and partly because of the unforeseeable losses on foreign exchange these American liabilities should be reduced as rapidly as may be. It is surprising that such a momentous subject should have been allowed to go to sleep in the House of Commons. Not even a question is asked about it, while the Chancellor of the Exchequer's rare allusions to it betray a very imperfect appreciation of its gravity. His latest disquisition on foreign exchange was absolutely platitudinous.

The international part of the fifty thousand millions of gross war expenditure will require very skilful handling if any considerable part of it is ever to be liquidated. What the belligerent nations owe to each other is so mixed up with a variety of other international questions—currency, foreign trade, foreign exchange, etc.—that it cannot be dealt with separately. In some cases a big debt has its advantages which an unscrupulous nation may not hesitate to use. It lowers the value of money and raises prices to suit producers. As in Russia paper issues may go on until by sheer force of superabundance their circulating value is reduced to nil. War debt may follow the example of the currency and go on increasing as its market value decreases. This is an important question for the United States, which is already the largest holder of international war debt and is increasing it steadily by adding overdue interest to the principal

Thanks to the peculiar arrangements which belligerent States may have to make among themselves as to their reciprocal liabilities it may turn out that after all there is not much difference between domestic debt and external debt. In case of national bankruptcy both sets of creditors will suffer and sometimes the foreign creditors may suffer worst. Groups of nations may pool their war debts and thereby extend the area of their liability. This might have the effect of converting foreign debt into domestic debt. It might to some extent justify the theory of the economic optimists that the annual charge on a domestic loan affects only the individual payers and not the nation itself. This argument, if it were worth anything might be extended to include a group of nations or even a whole continent. In economic science nations are casual and arbitrary divisions of mankind.

CHAPTER XII.

WAR BANKING.

One of the most puzzling problems of military science before the war was the financing of modern war expenditure. There seemed to be no limit to the number of combatants that could be put in the field, or to the killing appliances with which they could be equipped, but how about paying for them! Both financial and military authorities considered that the expense would be so enormous as to seriously limit the duration of a war. Six months was supposed to be their utmost limit, and the Germans expected to finish their little job in three months. They had figured out the cost of it on that basis.

They would probably have shrunk from it had they been told beforehand that they would be nearly five years over it and come out bad losers in the end. What should have surprised them most was that they ever came through it at all. It completely ruined their currency and swamped them with penny marks instead of shilling ones—the legal coins of the realm. But behind this currency chaos the German banks carried on their operations steadily. Thanks chiefly to them thousands of millions of war expenditure was put through. A similar miracle was performed even more successfully by our English banks. With their devoted help the British Treasury contrived to make payments of over 5,000 millions sterling a year right on to the close of the war.

When Mr. Winston Churchill's illustrious ancestor the Duke of Marlborough set out on one of his great campaigns in the Low Countries he took with him a Jewish banker, who raised money for him by drawing on London bills which were often honoured with difficulty. It required no small amount of banking skill to provide funds for the current expenses of even the small armies of those days. No doubt the army banker had to take great risks, but we may be sure that he came out pretty well at the finish. Judged by modern standards, Blenheim, Ramillies and Malplaquet were cheap victories. In the whole twelve years of Queen Anne's reign her war loans fell short of forty millions sterling—less than half of the credit with which the world war was started.

In contrasting the army banking of two centuries ago with that of to-day, one of the most obvious changes is the large proportion of war expenditure that can be provided for in the ordinary course of business. Even in the case of foreign expeditions the chief part of the cost is the initial outlay on mobilisation, arming and equipment, all of which can be provided at home. When the expedition lands on foreign territory its principal requirement will be money to feed and clothe it and keep it in fighting shape. A small percentage of metallic money—either gold or silver—may suffice for these objects, and if it can by means of good banking be obtained on the spot, so much the better.

The real financial agony of war evinced afterwards and it is coming now in earnest. The multitude of committees among which the problem of post-war re-construction is said to have been divided up, presented an appalling prospect to the re-constructors, and the worst of it may not yet be known. At least one of the most difficult problems has still to be taken in hand officially, post bellum banking is too vast and complex a subject to be entrusted

to the ordinary run of politicians. There is only one case on record of their having made a successful venture into that economic maze, and it was the Federal Banking Act of the United States. It is already being regarded with envy by our own banking reformers, but the banking conditions of the two countries render American precedents of little use to us, and ours of equally little use to the Americans.

The British banking system has always been unique. It is as distinctive in its spirit, as in its history, its traditions, its principles and its organisations. Even its problems are peculiarly its own. They are much more varied and unsettled than those of any other country. Lombard-street seems to be always in a state of flux, and that peculiarly was never more marked than at the present time. Questions that were supposed to have been definitely closed two or three generations ago, are to-day re-opening under our feet. Banking maxims which to our grandfathers were almost sacred, are being challenged and in some cases altogether disowned. The practical effect of all these forms of unrest is that our banking circles live in a state of ceaseless controversy compared with which French and German conditions are positive stagnation.

For a whole generation unsettled banking problems and undecided disputes have been steadily accumulating. Before the war they were treated in a somewhat casual and intermittent fashion: taken up at long intervals, advanced a stage or two and dropped again. For this fooling the politicians and the bankers themselves have been equally to blame. It has now, however, reached its limit and soon these accumulated problems will have to be attacked in a new and much more resolute spirit. The most urgent of them will be :—

First modernising the methods and the management of the Bank of England.

Second, bringing the Bank of England and the clearing banks into closer relations.

Third, systematic development of their foreign business.

Fourth, the regulation of foreign banking competition combined with adequate safeguards against the revival of German abuses.

Fifth, the establishment of a sounder international money market in which British control as well as British interests shall be dominant.

Sixth, the formation of new gold reserves, sufficient to maintain a stable sterling exchange. To this the Treasury, the Bank of England and the clearing banks should contribute in proportion to their several responsibilities.

Seventh, the creation of a new currency (embracing the Treasury notes), on a broad and secure basis.

Eighth, the supervision of banking amalgamations and large movements of capital.

Good banking—in other words, well constituted and widely distributed banking credit—is the key of modern war finance. It is not necessary nowadays to adopt the roundabout and dilatory methods of Pitt's time. Money has no longer to be raised first in the city, and then to be distributed among a horde of army contractors, who distributed it again among hundreds of manufacturers, who in their turn paid it out in wages to thousands of workpeople. The War Office and the Admiralty now go direct to the manufacturers, who are generally joint stock companies with a larger command of capital than Pitt himself ever had in the Napoleonic War. They finance as well as manufacture, and thus take a heavy burden off the shoulders of the Government.

There are two stages in the financing of a foreign ex-

pedition, first fitting it out at home, and second feeding and maintaining it abroad. Both stages demand vastly larger preparations to-day than they did in more primitive wars, but not necessarily more difficult ones. It may be as easy to organise and equip 5,000 men now as it was to equip 500 in the time of William the Third. The development of credit national and international, has simplified the task by one half at least. It may be truthfully alleged that the mobilising of the British Expeditionary Force caused no perceptible strain in commercial or financial circles. Notwithstanding that they were all out of gear it had no visible effect on them.

It was carried through as a matter of business and the weight of it was distributed over a large commercial area. Every contractor or manufacturer who took part in it had his own circle of credit, which was incidentally placed at the service of the Government. The foreign part of the work was less simple, but there was no reason to fear that it would over-tax or even strain the capacity of the three great banks which shared amongst them the task of financing it: namely, the Bank of England, Bank of France, and the Bank of Belgium. Had the Bank of England to bear the whole brunt of the ordeal it might, in its present weakened condition, have had some difficulty, but with two such allies there could be little or none.

When financial engagements, running into millions and tens of millions have to be met day by day it becomes vain and unreasonable to expect from the most heaven-born financier a definite policy laid down beforehand and consistently adhered to. In such times no Chancellor of the Exchequer can always see a week, sometimes even a few hours ahead of him. We ought not to be surprised when he appears to be in two minds, or when he turns his back upon himself. Any keen investigator may detect half a dozen different policies in the financial conduct of the war in Downing Street. Some of them not merely differ but

are in direct opposition to each other. These contrasts became particularly striking in the years 1916 and 1917. They were chiefly due to the entry of the Americans into the war which completely changed the financial relations between London and New York.

In 1916, before the United States Government came to our financial aid, it was held to be of primary importance to keep money rates in London higher than in New York and other foreign centres where the exchange was against us. We deliberately penalised ourselves, or rather the banks did it for us, in order to be able to borrow cheaply abroad. That policy reached an appropriate climax in Mr. McKenna's six per cent Exchequer bonds. Exactly a year later the situation was reversed. The United States Government had relieved us from the anxiety of private borrowing in New York, and the Chancellor of the Exchequer could now devote all his energy to domestic loans. National War Bonds were launched in October 1917, and the public had to be coaxed, terrified, or if necessary, forced into them. They were not a suitable investment for the banks, though some banks did put large sums into them as decoys. They showed, however, a wider patriotism and a more practical self-denial in urging their depositors to subscribe liberally to the bonds.

Perhaps they have not got sufficient credit for this disinterested proceeding. By inducing their depositors to transfer their money to the National War Bonds they were making a deliberate sacrifice of current earnings, which was only partially recouped by the reduction in their deposit rates. But the remarkable thing here, is, the combination of measures adopted with the deliberate object of blocking the various channels of day to day investment, likely to compete with the new war bond. This was the frankly avowed object of suddenly lowering the Treasury Bill rate from four and three-quarters

to four per cent., and reducing the rate allowed by the bank of England to the clearing banks on their overnight balances. At the next annual meeting of the London Joint Stock Bank, the Chairman, Mr. C. T. Milburn, made full confession of the scheme and its motive.

"War finance" he said, "is more than ever with us. You will remember that until last year money was raised for the war on a steadily increasing return of interest, which reached its climax with the issue of Six per cent. Exchequer Bonds. In the early spring the Chancellor of the Exchequer put a stop to this upward movement, and a five per cent. loan at 95 was successfully floated, and now, as you are aware, every effort is being made to raise loans by continuous borrowing on Five per cent. National War Bonds, repayable at a premium. On their merits the Bonds are decidedly attractive, and I may say we have invested £1,500,000 in them. But what gave the increased sales of the bonds their main impetus was a further cheapening of money caused by a reduction in the Treasury Bill rate from four and three-quarters per cent., to four per cent., whilst the Bank of England also reduced the rate allowed to the clearing banks on deposit from four per cent., to three and a half per cent. The Bank of England, however, still discriminates in favour of money belonging to banks domiciled abroad. This is done for the purpose of keeping foreign money in London, and thus helping to maintain the foreign exchanges. After America came into the war, and by her aid enabled the most important of our exchanges, that with New York, to be kept stabilized, opinion has been more and more in favour of making our domestic money cheaper, and thereby enabling the State to borrow on lower terms. The movement now so well begun may have further developments."

Before the war, "Bankers' money," which, to a large extent is only another name for credit, could be turned over in Lon-

bard Street in unlimited amounts and with a minimum of trouble. It was the quickest and easiest method of handling the enormous deposits which the big joint stock banks accumulated in London. Their capital being very small compared with the huge volume of their deposits and current balances, handsome dividends could be earned without taking serious risks. Lombard Street banking, which dealt chiefly in bills of exchange and acceptances, drawn on London from all the corners of the globe, was glorified into an El Dorado. That legend was started nearly half a century ago by Walter Bageshot, and it has kept on growing ever since. It was in full bloom about the beginning of the present century, when being the money centre of the world and the only free market for gold was considered the proudest distinction any city could achieve.

Not until recently was a further question asked—was this a profitable distinction? The bankers engaged in it, contended, of course, that it was. They went farther and represented it to be the sheet anchor of our national finance. They suggested that without Lombard Street, London would be shorn of its financial strength. It was diligent use of this assertion by free trade bankers that gave the quietus to Mr. Chamberlain's tariff reform campaign in the city. But between 1903 and the outbreak of war, the Lombard Street cult began to decline. It became evident that the drawers of the bills and acceptances which now flooded Lombard Street were making much more out of them than either the acceptors or discounters. They went after the foreign market and built up very profitable connections: then came to Lombard Street to finance them. For every pound Lombard Street earned by discounting German bills, the Germans made four or five off the goods they were intended to pay for. But it is hardly fair to the London banks to assume—as a good many of their critics do—that this topsy turvy arrangement had been going on up to the

outbreak of the war. It had, in fact, been for several years in a transition state. The necessary alterations could not be made quickly because the London banks had not been specially constituted, as the German banks were, for financing foreign trade. In order to undertake it without danger to any of the principles which should govern deposit banking, they had to organise special departments for the purpose. These are cautiously feeling their way into foreign markets and setting up an active competition with the Germans. As it develops, Lombard Street will have fewer foreign bills and more British bills to discount. Meanwhile much confusion of thought still prevails on the subject, and though it is at last receiving serious attention there is much lee-way to make up.

During the discussion of the big banking amalgamations, the up-to-date banking view of Lombard Street was thus stated in a financial organ.—Sperling's Journal :

"It is largely due to its money market that London has in the past obtained its unique supremacy as the financial centre of the world, and it is largely due to the freedom of this market that the London bill of exchange is an instrument of credit freely negotiable throughout the world. London bills are thus freely negotiable owing to the circumstances that discount houses have hitherto been able to obtain from a wide number of banks ample funds to carry on their business, and consequently have always been in a position to purchase bills. The funds were obtained from the banks in the form of "day to day money," known as "call loans," and it is estimated that under pre-war conditions approximately £100,000,000 of bills were carried in this manner by the London discount market." (Bank Amalgamation by "Spartan," page 20.)

It hardly requires to be pointed out that "Spartan" adopts a purely technical view of the money market. He looks at the monetary part of the operation which is, after all, only a

subsidiary part. By doing so he excludes the main question, what use is made of the £100,000,000 of bills and acceptances which forms the stock in trade of Lombard Street. Is it always employed for the benefit of the country or otherwise? On this point a strong and by no means favourable expression of opinion will be found in an important article which appeared in the "Quarterly Review" for April, 1918, under the title, "Shall England finance Germany"? It begins where "Spartan" leaves off and carries the inquiry a long step farther. After giving a substantially similar description of the money market to "Spartan's," it proceeds—

"Under such a system of international banking any nation could, by banking acceptances of drafts, negotiate in London bills to a colossal amount, always provided the total volume was within the apparent credit resources of the accepting banks, and the commercial activities of the nation concerned. Large sums were loaned to America from time to time through the medium of such finance bills to move cotton and for other purposes. But the greatest use of this internal casual reserve of banking credit was made by Germany through her great banks such as the Deutsche Bank and the Dresdener Bank." (Quarterly Review, April, 1898, page 478.)

Next he asks, and answers the question, what use Germany made of her lavish drafts on the grand reservoir of international credit?

"Great Britain at the outbreak of war, undisputed mistress of world finance, arbiter of international banking credits, ruled her kingdom with perfect fairness and equality of favour. The applicant, who came to her doors with the "open reserve" of approved accepted bills, never went empty handed away. What was done with the money thus obtained, English banking neither knew nor asked. It might build the Bagdad Railway, or give lengthy credit to Russian purchases from

Germany, or supplant British trade in South America and China; it was all one to English banking. Money was impersonal, the object to which it was devoted was indifferent. The ultimate effect and reaction of such use was of no concern to the banker." The article concludes with a grave and impressive warning as to the perils of allowing such pro-German methods to be revived in Lombard Street after the war. It shows that Germany will be keener than ever to take advantage of them and also be better prepared.

"Germany's opportunity to make large profits will be immense. Given the raw wool and cotton she can sell clothing to Russia at profits many times larger than her ante-bellum return, provided she could obtain from London the requisite credits to purchase the cotton, operate her mills, and give the necessary credits to Russian merchants. Equipped as she is, Germany can in the international money market pay the highest price for credit. Once obtained she will use it most profitably, and the security will be adequate and certain."

The above warning was by no means overdrawn, nor were Germany's probable advantages in post-bellum trade at all overstated. On the contrary they be increased rather than diminished. The depreciation of her currency, though a disadvantage to her as regards her purchases abroad, may more than compensate her for that drawback by cheapening production at home, and it will in any case tend to stimulate home production, as the more that is produced at home the less will be the depreciation of her currency be felt. We may in short discover after the war that our real trial of strength with the Germans is only beginning. If we are to resume playing into their hands as our politicians and bankers were doing before the war a very few years would complete the process of Hari Kari.

The British banking of the future will have to be the work of highly trained experts. Probably not one boy or girl in a hundred who passes through our primary schools, public or private, possesses the brains and the character necessary for the highest post in the service. The other ninety-nine may work their way mechanically up to a certain level and stick there. The scraps of French, German, chemistry, etc., which they brought with them from school will be thrown away as far as their profession is concerned. Better results for the country might have been obtained by dropping the dull boys at a certain point and carrying on only those capable of reaching the higher levels. That is the German method of training technical experts, and it is one thing we may be able to copy from them without having it muddled in transit by political pedagogues.

Two opposite temperaments—optimist and pessimist—have had a conflicting influence on our war finance. All through the war New York was the champion optimist of the Allies, who have every reason to be thankful for that fact. It resulted in moral encouragement as well as in material support for the Allies. But when the war had been won and the Armistice signed American financiers unexpectedly changed their tune. New York bankers hurried over to Europe to make a personal investigation of post-war conditions, and the prospects of recovery. They found the situation much worse than they had anticipated and their ideas had to be re-arranged accordingly. One of the ablest of them Mr. Vanderlip, the late President of the National City Bank, and hitherto the most sanguine authority, wheeled completely round and became an alarmist.

On his return to New York, he began by public addresses, newspaper interviews and otherwise to explode the illusions of the war years. His campaign opened on May 20, 1919, at

a meeting of the Economic Club. It will be seen from the following examples that he did not mince words. Such strong and plain language as he used has never been heard in any of our commercial assemblies—least of all in the Institute of Bankers or the London Chamber of Commerce. After a minute analysis of the food, raw materials, and financial conditions generally, he warned America that she was almost the sole hope of Europe, which was threatened with starvation, idle industry, crippled transport, paralysed markets, injured morale, and shattered Government credit. America, he said, had not begun to understand the full import of what has happened to Europe. After visiting England and all Europe west of Germany he found that his own ideas of the war's effects were absurdly inadequate. Then he entered into historical details and comparisons, of which we have also heard a good deal on this side of the Atlantic, though in a rather haphazard way.

Our difficulties were entirely different from those existing after the Napoleonic war. Europe was now a factory community, dependent upon world trade for much of its food and raw materials. England's predominance during the last twenty years in international industry was due largely to a low wage scale, but labour was not earning enough now to keep a roof over its head. England's future was absolutely bound up with the continent. She cannot get outside credits with which to buy food and materials unless there is a European demand for her goods. A responsible Minister told the speaker that unless the European demand was speedily re-established, five to six million Englishmen must be got nearer the source of food supplies. In plain English they would have to be emigrated to food growing countries overseas. A small crumb of comfort was offered to us in the assurance that, the idleness of industry on the continent was the gravest feature of the situation. Everywhere there is a serious minority questioning

the fundamental principles of property rights, and the present social order.

For us Europeans, the most interesting part of Mr. Vanderlip's address will be his forecasting America's duty in the coming crisis. His picture of our desperate needs and of the stupendous efforts she will have to make to supply them even partially, ought to wake us out of our lethargy.

"America" he said, "must not delay her aid, as hungry stomachs will not wait for things to straighten out of themselves. The European industrial paralysis is vastly more important than her financial confusion. America must give aid in a big-spirited, scientific way, treating the European situation as a unit. The highest authorities believe that the food situation will be worse in the spring of 1920 than in the present year. What America should supply is not credits to the exhausted national treasuries, but actual things necessary to restart industry—food, machinery, raw materials, railway equipment—to be paid for in time and guaranteed by the best security the nation can give. With Europe restarted, America's duty would also be her magnificent opportunity."

American banking science, as exemplified by its younger leaders like Mr. Vanderlip, takes a much wider range than the British. After summing up the cash losses and liabilities of an international war it sets against them all the offsets and compensations that can suggest themselves to an ingenious theorist. Many of these are already familiar to students of American economic literature, for example:—

Increase of physical efficiency in the people at large.

Numerical increases in the industrial and commercial classes.

Intellectual stimulus derived from the exacting operation of war.

The enormous accession of female brain and muscles to the labour forces of the country.

A sweeping elimination of slackers, idlers, and inefficients.

A higher and stronger sense of national duty.

Within certain limits which have to be carefully determined, optimist views may be helpful, but some of their American advocates overstrain them. They go almost as far as to argue that war can be made financially self-supporting. Anyhow, they say now that the generation that makes the war has to pay for it, and no part of its cost can be passed on to posterity. In the same line of argument they assert that the real payment for the war was made in existing goods and services not in future promises to pay. Having been paid for in existing goods and services, posterity cannot be made to pay for it a second time.

Diatribes of this sort generally run themselves down to a very fine point, so fine indeed as to be of very little practical use. They may, however, in the present case serve a good end as an antidote to the too narrow and technical views of the City, on the larger questions of State finance.

CHAPTER XIII.

WAR CURRENCY.

The romance of war finance centres in paper money. It is the most complex, and at the same time the most universal of financial problems. It represents a stage of financial development through which every country has to pass. Every great war has left behind it an evil heritage of paper money, and in this respect as in so many others the world war has made a terrible record. Every belligerent country has been swamped with some form or other of assignats. And England, the most puritannical of currency theorists has been one of the worst sinners against its own gospel of sound money. Who would ever have thought of the British Treasury putting into circulation hundreds of millions of legal tender notes with a gold backing of less than eight per cent. ! Nevertheless that inconceivable thing happened, and is still happening, though the great war is already two years old. It happened of course by accident, like most important events in British history. The war broke out at a time when there was an unusual demand for small money. All sums below five pounds had to be paid either in gold or silver, and a run on the Bank of England's gold reserve was one of the greatest dangers of the hour. Small notes of any kind were wanted by the banks to meet the demands of holiday makers, and to save their now doubly precious gold. The sudden closing of the

Stock Exchange on July 31st., was quickly followed by symptoms of a run on the Bank. During the morning it received so many applications for discounts and short loans that it was compelled to impose special terms. Then the drastic resolution was adopted to put up the official rate to eight per cent., which on the following day, August 1st., was further raised to ten per cent. Meanwhile, representatives of the Bank of England and the principal joint-stock banks asked for, and promptly obtained, an interview with the Prime Minister and the Chancellor of the Exchequer, in order to consider the possibility of a suspension of the Bank Act becoming necessary.

The real object of the interview was to bring about at the earliest possible moment a clear understanding between the banks and the Government as to how the impending strain on the money markets was to be met. Even without a great war, the strain would be severe, so severe, perhaps, as to necessitate exceptional supplies of currency. With a great war it would be terrible. The ordinary operations of banking and currency could not be carried on for a single month if trading operations were thrown out of gear. The bankers did well, therefore, to take time by the forelock and prepare for the worst. They all feared that in the first clash of arms the Bank Act would crumple up and have to be cleared out of the way. They did not ask to have it cleared away at once, but simply for an official assurance that they would be relieved from it when necessary. Their primary duty as bankers was to protect their gold reserves, and to do it with the least possible amount of injury or inconvenience to the commerce of the country, which, after all, is even more important than our banking system. The latter object could not be attained under the Bank Act of 1844. It makes no provision for safeguarding trade, but, on the contrary, sacrifices it to the secondary duty of maintaining a metallic currency.

Credit, which is the real money of commerce, had been abundant and cheap down to the eve of the war. The emergency demands arising out of the crisis would, of course, have made it dearer but would not have shot it up from four to ten per cent. That was a gold operation and a very costly one for the unfortunate traders who had to pay the penalty of it. Every time the gold reserves of the Bank of England fall to danger point, they have to be replenished by screwing up the bank rate. But there are limits to the screwing process. When it becomes a question of ten or twelve per cent. bank rates, with precarious gold reserves even then, it may be cheaper and easier for the country to go temporarily on a paper basis.

The above interview between bankers and ministers meant that we might come to that shortly. Careful readers of the official report on the conference will have noticed that it does not mention the Bank Act. It speaks only of "legal tender currency," which the Government will be prepared to authorise at once in the event of further developments rendering it necessary. The explanation of that peculiar expression is that the so-called Bank Act of 1844 is, properly speaking, a Currency Act. It concerns the Bank of England only in so far as that institution is the chief instrument employed in carrying it out. Its full title is "An Act to regulate the issue of banknotes, and for giving to the Governor and Company of the Bank of England certain privileges for a limited period."

By this much disputed Act, Lord Overstone and other monetary idealists, undertook to create an automatic, self-regulating currency system, in which gold and notes would be always convertible. Its three chief principles were:—

First, that the paper circulation of the country should fluctuate just as metallic money would do in similar circumstances.

Secondly, that in order to secure such an automatic currency the bank should have a separate issue department.

Thirdly, that the bank, having obtained virtual control of the English gold reserves and paper money, should issue its notes to all and sundry against gold at a fixed price, (£3 17s. 9d. per ounce).

The only positive obligation imposed on the bank is to buy gold not to sell it; but the buying implied selling. In 1833 the notes of the bank had, for the first time, been made legal tender, with the implied obligation that they should be convertible into gold on demand. Consequently, when it issued notes against gold, it gave the receiver power at any future time to demand gold back again. The bank became, in effect, merely a gold depository, maintained at the expense of British traders for the benefit of the world at large. A paper currency which can be kept moderately close to gold point may, for domestic use, be about as good as gold itself. The London Bankers thought at first that a moderate amount of special currency would tide them over the crisis. They were considering only their own immediate needs rather than the ultimate needs of the country. Their idea was to have each bank supplied either by the Treasury or the Bank of England with enough notes for till money. Limits had to be put on the issues and security provided by each borrowing bank. To arrange these details was a tedious and embarrassing task. Unfortunately, the man who took the most active share in it, Sir Edward Holden, did not live to see it completed. The paying off of the currency notes was beginning to engage attention when his untimely death deprived the City of one of its ablest and most courageous leaders.

In connection with the Currency Note scheme, an incident forming a feather in the cap of the Canadian banks ought to be specially mentioned. When the London bankers came together to confer on the various problems to be solved the one that demanded their earliest attention was the supply of

emergency currency to provide against possible panic demands. Had the usual precedent been followed the Bank Act would have been suspended forthwith. To this there were, however, grave and well-founded objections. Its moral effect on public opinion at home and abroad would have been dangerous. To the foreign exchanges it would have been paralysing. Government credit would have suffered by it to such an extent as to render the raising of war loans much more difficult and costly than it might have been with sterling exchange at its full strength.

But no one had a feasible alternative to offer. From Saturday onward (August 1, the date of the Russian declaration of war), the bankers met daily and discussed for hours this dilemma. By getting three extra days added to the August Bank Holiday (August 3), they secured four days' grace. The banks were due to re-open on Friday morning (August 7), but when the conference adjourned on Wednesday night no solution had been discovered. Before next morning, however, a happy thought had occurred to a leading member of the conferences.* The question was how to devise a collateral security of a collective character strong enough for the Treasury to lend upon to the banks without requiring it to negotiate with each individual bank for its advances. In the watches of the night the member referred to, who had special knowledge of both American and Canadian banking, remembered that Canadian bank notes possessed the very qualification needed to meet the difficulty. In addition to the ordinary cover of cash reserves they were secured by a first charge on the total assets of the issuing bank, thus making them practically panic-proof.

Before the conference opened on Thursday morning—the last day of grace—this fact was submitted to the chairman,

*The late Sir Edward Holden.

Lord Cunliffe, with a suggestion that a Treasury note secured by a first charge on the entire assets of the issuing bank, would be absolutely safe and might be issued to any reasonable extent. His lordship agreed. It was submitted forthwith to the conference and adopted. A deputation was dispatched to Downing Street to submit it to Mr. Lloyd George and Lord Reading. They were graciously pleased to approve of it, and the printing of the notes began the same day. Never before in financial history has so sweeping a measure been devised and put in operation so rapidly. Its success was immediate and complete. Only a comparatively small part of the expected requirement was actually needed. The first calculation was that £40,000,000 might have been provided, but little more than a seventh of that sum sufficed. The total amount borrowed by the banks was about six millions sterling.

Such was the origin of the currency notes of 1914, which not only safeguarded the banks from a run of their gold reserves, but averted a suspension of the Bank Act. The immediate object of the notes was to act as an emergency currency for the time being. It was evidently not expected that the public would take to them so kindly as they did, and surrender their gold so freely in exchange for them. The lowest estimate of the amount of gold withdrawn from circulation and replaced by currency notes is eighty millions sterling, and some authorities put it as high as a hundred millions. At one time their rapid increase caused some apprehension, and when the gold reserve held against them stuck fast at twenty-eight millions sterling, while the outstanding notes gradually swelled to three hundred and sixty millions, visions of rag money began to loom on the horizon. Happily, such visions did not spread far. They were limited for the most part to an alarmist circle of economic writers, who scented inflation in every expansion of the currency. The public answering loyally to every appeal

made to them for war sacrifices used the notes without question or demur.

The god-parents of the currency notes—namely, the Government and the issuing banks—did not behave well by them. They gave them a good start and then left them to themselves. Whereas they should have been restricted to an absolutely necessary amount and substantial provision made for their redemption within a reasonable period, the Treasury was given a free hand to issue them as fast as they could be printed. The printing press was used so unmercifully that the amount of the notes in circulation rose gradually to three times the estimated value of the gold and silver superseded by them. They became in the end a fountain head of corrupt and extravagant expenditure, which in its turn caused a ruinous inflation of values.

We need hardly spend much time over the many controversies which have sprung out of the Treasury note issues. Their enormous total places them altogether outside the scope of nineteenth century currency theories. No amount of ingenuity could fit them into the procrustian system of 1844. As Mr. Chamberlain put it in his first Peace Budget (April 30, 1919), throughout the period of the war legal tender money had been increasing in various forms until it then stood at the terrific total of 540 millions sterling—nearly £9 per head of the population. On the eve of the war it was estimated at only 214 millions, so that in less than five years it had multiplied itself two and a half times.

Here, now, is a curious and interesting conundrum. If the country is returning to a peace basis, why should not the currency gradually contract to its old level, or something near it? But instead of any sign of contraction, we continued for months after the Armistice to see steady expansion. Indeed, the rate of expansion increased rather than diminished.

The fiscal year 1918-19 had actually a record increase in legal tender money (including bank notes). On April 1, 1918, the amount of notes outstanding was 228 millions. In the seven and a half months to the signing of the Armistice it accumulated another 63 millions, making altogether 291 millions : an increase of nearly two millions per week.

In the twenty weeks from the Armistice to the end of the financial year (March 31, 1919) it went up another 37 millions, still averaging close on 2 millions a week. Then it began the new fiscal year gaily with a jump of 21 millions in three weeks, making an average of seven millions in three weeks, or exactly a million sterling a day. The Chancellor of the Exchequer could indeed say in all sincerity, "It is obvious that this expansion cannot be allowed to continue indefinitely." The wonder—and the shame—is that it has been allowed to continue so long. Who is to be held responsible for it?

First, of course, the spending Departments who have been flinging around money, abroad and at home, on earth, air and sea. Second, the Treasury, which has become a champion spender itself, instead of a supervisor. Third, the House of Commons, which all through the war let the Government have blank cheques for the asking. Lastly, that patient ass, the British public, which, the more it is taxed and worried by its rulers, the better it likes them. Three centuries ago crowns fell for smaller cause than issuing a million a day of new paper money. But there were resolute statesmen in those days who understood their job. Public finance was very much simpler than it is nowadays, and financial problems, instead of being footled with, were seriously tackled and definitely solved.

Even the currency experts have not with the best intentions succeeded in giving the public much enlightenment on the currency inflation puzzle. They do not, it seems to me, sufficiently allow for the extraordinary circumstances in which the

Treasury notes were issued. By assuming that they are, in fact, similar to the conditions of issue that prevailed in the past century they justify themselves in applying to the new currency the same ideas and principles as governed the older forms. They argue about "forced currency," "legal tender," "convertibility," "inflation," "deflation," and other technical phrases of a century ago, forgetting the vast difference there is in many respects between the whole financial organisation of the two periods.

In the eighteenth and nineteenth centuries the chief and practically sole issuers of paper money were the banks. They had a free hand for it and over-issues were a naturally infrequent occurrence. It was then quite correct to speak of inflation and to blame the banks for it as they were the principal culprits. The cure for inflation in those days was plain and direct. Every note issuer had to curtail his circulation until it fell within the actual requirements of local trade. That was the reverse process distinguished as "deflation." But the Treasury had no direct connection with any of these. It was responsible for the Mint and the Mint only—in other words for the metallic money.

The term "forced" currency was originally applied to metallic rather than to paper money. It was given an arbitrary Mint value and had to be accepted at that value in all payments and exchanges. But arbitrary values could not be long fixed on bits of paper. The French assignats, the United States greenbacks, and the Bolshevik rouble notes are all dramatic proofs of this fundamental law of currency. The single fact that Treasury notes are not issued by the banks, but by the Treasury should be enough to distinguish them from the note issues which formed the paper money of our pre-war period.

No one would have dreamed of allowing the banks to issue notes *ad libitum* with only an 8 per cent. gold cover as the Trea-

surey was doing at the close of the war. They would never have been authorised without at least 30 per cent. of gold cover and to maintain that on the existing circulation of 350 millions sterling would have demanded a gold reserve of 105 millions. But the Treasury sails serenely along with 28½ millions. Not a sovereign has been added to it for several years, even when the notes were increasing at the rate of a million sterling a day. It is a misnomer to speak of this as a currency issue at all. The notes are simple "I.O.U.'s" of the Government, and the Government is solely responsible for them.

They have none of the elementary and essential safeguards of proper currency—no limitation on the amount of issue ; no guarantee of convertibility, no protection against sudden floods of paper and serious disturbance of prices. To put it briefly they are not sound money and it is impossible to contemplate without serious uneasiness the prospect of their becoming a permanent part of our monetary system. The one weak passage in Mr. Chamberlain's first Peace Budget was his laboured and unconvincing apology for the Treasury notes and the floating debt generally. The figures were colossal enough to frighten even one of the boldest financiers, but they came trippingly off his tongue. He seemed to realise their gravity almost as little as the ordinary Parliamentarian.

Mr. Chamberlain did well to treat the Treasury notes as part of the huge floating debt. They are so, in fact, and in any comprehensive funding scheme they will have to be taken into account. He detailed different classes of floating debt as at March 31, 1919 :—

Treasury Bills	...	...	...	...	£957,000,000
Ways and Means Advances (Bank of England Overdraft and Departmental Balances)	...	...	...	...	455,000,000
					<hr/>
					£1,412,000,000
Currency Notes	...	...	...	...	328,000,000
					<hr/>
					£1,740,000,000

In considering the monetary situation as a whole, the bank notes proper should be included with the currency notes. On the 31st March they amounted to 212 millions, and the grand total of legal tender money in circulation would be 540 millions. There are two sides to this imposing spectacle—a bright one and a darker one. To have created nearly 2,000 millions sterling of open credit (Treasury Bills and Ways and Means Advances, 1,412 millions; and Legal tender notes, 540 millions) was indeed a great financial feat, but it might have been as well for us in the end if our crediteering skill had been somewhat less remarkable. We should have spent less wildly and not have fallen into such an abyss of debt. Conjuring, in the money market, is a great gift, but it has its drawbacks, and we are evidently about to learn some of them.

It is characteristic of our British methods of national finance that the principal money with which we fought the world war was, from beginning to end, more or less of a mystery to its users. They had no idea how it originated, how it was manufactured, who were its sponsors or how it was controlled and regulated. It was taken entirely on trust, and it cannot be said that the trust completely justified itself. Mr. Chamberlain's references to inflated currency in his budget speeches do not indicate a very clear or definite comprehension of the problem.

The facility with which the notes got into circulation and the widespread confidence in them which has been established, greatly simplifies the question of their future. Had they failed to popularise themselves and to overcome the English prejudice against small notes, they would probably have had to be withdrawn as quickly as possible after the war. But now that their retention is found to be a matter of free choice, the question can be judged entirely on its practical merits. In other words it will have to be decided whether it may be more advantage-

ous to the country to continue them or to call them in. There can be little doubt as to the popular decision, and still less as to that of the bankers. The latter see in the currency notes an invaluable means of economising the gold reserves of the nation. Plans, in fact, already exist for utilising them to that end.

One of these is not lacking in boldness and imagination. It proposes to retain the whole issue after the war and to base upon it a huge gold reserve calculated to impress the world at large. Every note would be covered by gold to its full amount, and this gold would be maintained intact in normal times. Only in emergencies and seasons of great pressure on the ordinary gold reserves would it come into play. Then it might be drawn upon to the extent of thirty, forty or even fifty per cent., a sufficient margin to meet any conceivable crisis. The weekly return of the Bank of England when the Issue and Banking Departments have been consolidated as Sir Edward Holden advocated would give timely warning when the danger line was being approached. Prompt action could then be taken by the responsible authorities who would be joint representatives of the Treasury and the Bank of England.

When this very original scheme comes to light the fine Roman hand of Sir Edward Holden will again be seen on it. Nor was it Sir Edward's only prospective reform in the banking world. He had further in view gold reserves which would form a triple line of defence for our banking system. These were to consist : First, of the Bank of England reserve as readjusted in the consolidated balance sheet. Second, the gold reserves of the joint stock banks, which would be at the service of the Bank of England under certain conditions. Third, the Treasury note reserve as above outlined. The show of gold which London might be able to make under such an arrangement would leave the Reichsbank out in the cold and might even be able to hold its own against America's gigantic accumulations.

Forsooth an ideal after-war programme, provided it can be executed within a reasonable time, and at moderate cost to the public. The initial difficulty would be to collect gold enough to cover the whole of the outstanding currency notes. This might be a long job under the existing system, and with the existing machinery at Threadneedle Street. But both of them can be speeded up. A few simple alterations might go a long way toward that end. The Bank of England might have certain prior rights conferred upon it in the gold market as, for instance, the right to raise its buying price when necessary, instead of being tied down to its statutory £3 17s. 9d. per ounce; the first call of gold coming into the open market; facilities for securing the output of all the mines in British gold fields throughout the Empire.

Before conferring these or other privileges on the Bank of England it would have to be ascertained that they were not to interfere with the essential freedom of the London money market. Gold would still have to be open to free competition. If the Bank were to be allowed to compete private buyers would have to be permitted to bid against it, but with the proviso that the Bank should have a right of pre-emption at the top price of the day. Suppose a parcel of gold were bid for up to 114s. an ounce, the Bank should have the call of it at that price. This pre-emption right would often have prevented quantities of gold from going abroad which were badly needed at home. A glaring example of this occurred not long before the war, when the Reichsbank bought up in London about twenty millions of gold under the nose of the Bank directors.

As the bill market illustrates, the most liquid form of commercial credit so the currency should be the most liquid form of national credit. In this country it was for nearly a century preceding the war absolutely liquid. In other words, notes could always be converted into gold and *vice versa*. One

effect of the war which is as yet vaguely understood by the public is that Treasury notes are only theoretically convertible into gold. They are actually convertible into any other form of national credit at their face value, but when exchanged for goods or services they vary in value with the price of the commodity purchased. A rise in the price of commodities is really a fall in the value of the Treasury notes. In this sense the latter can no longer be regarded as liquid.

It is a fortunate circumstance for the Government that public discontent has hitherto been directed chiefly against the rise in commodities rather than against the depreciation of the currency notes, which is the real evil to be remedied. People are still satisfied with their ros. and 20s. "Bradburys," and have not yet begun to ask themselves why 360 millions sterling of such paper should ever have been needed. If they put the question to a currency expert of the last century he would reply that it was a case of excessive inflation, but to the man in the street such phrases mean nothing. Tell him, however, that the more notes put into circulation the higher prices rise and he will have an idea he can lay hold of.

CHAPTER XIV.

OUR LOP-SIDED FOREIGN TRADE.

It is an everlasting marvel how we ever won the war. Hardly less marvellous is it how our trade was kept going until the war had been won. It had difficulties to overcome, obstructions to remove, discouragements to suffer, such as no commercial community ever had to struggle with before. By dint of patience, perseverance and tact, they were successfully surmounted. Many errors may have been committed. There may have been many miscalculations and disappointments, but when all is said and done British commerce acquitted itself nobly during the war. But its war ordeal is not yet completed.

The war has left behind it a huge heritage of economic troubles. The provinces are worried to death with industrial revolts. The City is overwhelmed with financial problems. Bankers, manufacturers, traders, transporters and even retailers have all their share of them. And they can no longer handle them as they used to do by proxy. They demand personal care and attention to get them rightly solved. The foreign exchanges in particular have become much more insistent than formerly. The materials they operate with are not only more numerous than they used to be, but they are more variable and their variations are much more rapid. Nevertheless their main factors continue to be much the same

as before. It is almost as true to-day as it was in Adam Smith's time that "the balance of trade," in other words the difference between the commercial imports and exports of a country is the chief governor of its economic relations to other countries.

Time was when "the balance of trade" was scoffed at by up-to-date economists. It was classed with "the balance of power" and other popular, but puzzling, phrases as eighteenth century fictions. For us, however, it is no fiction, but one of the hardest and toughest facts that we find ourselves up against. Nor is it merely a theory or an economic doctrine. To-day the sharpest intellects and the keenest brains of the nation are being exercised upon it. But neither is it merely a question for experts, especially at a critical juncture like the present, when the well-being of the whole community from the highest to the lowest is at stake on its proper management. Before the war it might be said with some semblance of truth that our foreign exchanges were the affair of bankers and professional dealers. Even then such a statement was exaggerated and apt to produce mischievous illusions in the popular mind. It disguised the important truth that the adverse balance of trade—the great excess of our imports over our exports—had become chronic with us and was a national danger affecting all classes of the community.

In plain and familiar language our international account can only be kept solvent in the same way as a private account has to be by spending less than our income. Cobdenite economists tried at one time to explain away the constant excess of our foreign expenditure abroad over our income—that is to say of our purchases over our sales or our imports over our exports by declaring the excess of imports to be profits on our foreign trading. That impudent fiction did not, however, wear long, and any attempt to apply it to existing con-

ditions would expose it to utter ridicule. Even our pre-war balances were becoming too large to be mistaken for anything but what they really were—proofs that in our foreign trade we were outrunning the constable.

This unpleasant fact was camouflaged by a variety of economic expedients. Various non-commercial sources of income were lugged into the account in order to balance it. Earnings from investments abroad, interests and dividends on foreign securities, shipping freights, insurance premiums and a multitude of similar items were thrown into the opposite scale to bring down the extra imports. But however neatly and cleverly done this was not a convincing operation. It produced a false balance. Our imports and exports had no necessary connection with our foreign investments or our dealings in international securities. These were different departments in the national business and their results should have been kept separate. The trading account would then have had to answer for itself, and this would have necessitated a much closer investigation of its details than they ever received. If such an investigation was essential then it is still more so now, and will become increasingly urgent as our exchange difficulties multiply and intensify.

When our exports and imports come to be analysed scientifically it will seem amazing to the intelligent critic that the fatal error which vitiates them economically was not detected and exposed years ago. It lies on the surface and almost "jumps to the eye," as the French say. Note the enormous quantity of imported food that we consume and the relatively small return we make for it in the form of exports. This anomaly was hardly ever noticed until the war threatened to cut off our over-sea food supplies altogether. Then a hysterical political profiteering campaign was started for growing all our food on our own soil. We were never

hereafter to go beyond the Channel Islands and the Isle of Man for bread, beef and beer. But as yet the self-feeding vow is nebulous.

During the war over twenty different Committees were sitting on problems of reconstruction, and even then they were not all provided for. There is now reason to fear that some of the most important and fundamental have been overlooked. What, for instance, about our overwhelming imports and especially our excessive food supplies from abroad? Are they to be continued on the lavish and wasteful scale of pre-war times, and if so how are they to be paid for? This is a twin problem of the first magnitude, and the greatest urgency which ought to be occupying the minds not only of politicians, but of traders, bankers and the entire business world. It should have been one of the first subjects to claim the attention of the Lloyd George House of Commons, but so far it has been very little in evidence.

On the surface there may seem to be little connection between imported food and the foreign exchanges. The pound sterling and the price of the loaf may appear to be far asunder as the poles, but in the coming years they will be found closely allied and interdependent. The proof of this apparent paradox is so easy that the only wonder is that it has taken so long to discover it. Half an hour's search of the latest Board of Trade returns might have satisfied any intelligent person of its accuracy. To go no further back than 1918, we find that of the 1,319 millions sterling at which our imports were officially valued no less than 572½ millions went for food drink and tobacco—say, 43 per cent of the whole. Raw materials and unmanufactured goods were valued at less than 46 millions.

Granted 1918 was in some respects an abnormal year and that the last of the peace years, say 1913, would afford a better

economic test of the food problem. Its total imports (less exports) amounted to 659 millions sterling of which 290 millions or 44 per cent. went for food, drink and tobacco. If it had all, or nearly all, been consumed productively, there would have been a fair show of productive exports to set against it. In that way only could our foreign trade account have been properly balanced. But our exports of United Kingdom produce and manufactures were valued at only 525 millions sterling. In other words, after paying for our 290 millions of foreign food, drink and tobacco, only 235 millions of them was left.

Nevertheless, 1913 was a prosperous year, and its 525 millions sterling of exports were well above the average. But, good as they were, more than half of their total value was required to pay for our imported food, drink and tobacco. Strike out the latter on both sides, and we shall have only 235 millions sterling of industrial exports to set against 360 millions of industrial imports. Here the foreign exchange problem begins, and the question presents itself—how is that annual deficit liquidated? In other words, how do we contrive to conceal from ourselves and the world at large that we were running behind in our foreign trade about 175 millions a year?

Before the war the foreign traders who produced this bad balance simply turned it over to the bankers and exchange dealers and troubled no further about it. The foreign exchangers had various kinds of income earned abroad—shipping freights, interests and dividends from foreign investments, proceeds of credit operations, etc., which were usually supposed to offset the adverse commercial balance. Latterly, this became a somewhat doubtful point, but even if there had been a shortage it could easily have been carried forward from year to year. A trifle of 150 or 175 millions would be a mere cork on the great wave of Lombard Street's credit operations. But is that great wave to continue after the war?

Therein is the greatest of our financial problems, just as our foreign food supplies are to be the greatest of our economic problems. In both cases there are new and grave risks to face. As regards food prices, instead of their falling after the war as they were generally expected to, they may continue to rise, or at least they may remain stationary. Every nation in the world is short of food and many European nations are in a state of semi-famine. It may take a long while to fill their empty granaries, and build up a substantial surplus to send to market. Meanwhile, the population of the food-growing countries will be steadily—sometimes rapidly—increasing, and the surplus for export will as steadily diminish.

But food is only half the problem, and even if it could be solved by any of the ubiquitous Commissions the other half—that is the pound sterling—would continue to be a serious difficulty. Since the beginning of the war the pound sterling has been a mere legend and so has the gold standard—the oriflamme of Lombard Street. A war basis of exchange has been substituted for them by special agreements and arrangements among the Allied Powers. Thanks to these a nominal rate of \$4.75 cents. to the £ was maintained down to the time of the Armistice, but only by vigilantly guarding and protecting it : above all by refraining from putting any pressure on it. It was saved by skilful manipulation.

But that was a war policy, which could not possibly be continued under peace conditions. Traders are wondering when the currency restrictions of which it forms an essential part are to be entirely relaxed. When they ask are we to have our free market for gold restored to us? Obviously not until it can be done without peril to our foreign exchanges and that will not be until we have reconstituted our gold reserves and made them strong enough to bear the much greater strain that is now being thrown upon them. The technical details

of this operation concern bankers and exchange experts primarily, but underlying them there is a root question for the man in the street—What is he to do about his terrific bill for foreign food, drink and tobacco? It is becoming a veritable Frankenstein threatening both our future cost of living and the stability of our currency.

Even the man in the street can hardly say that this danger is entirely new to him. It was beginning to excite uneasiness during the Chamberlain campaign of 1903, and if it had been properly faced then, it would have been much easier to solve than it will be to-day. Our problem is not so much fiscal as economic. It turns on the suicidal folly of trusting to foreign sources for the greater part of the nation's food. In the sixteen years since this danger became visible it has made sufficient progress to excite inquiry if not alarm. Our foreign food and drink bill amounted in 1903 to 232 millions sterling. Ten years later—in 1913—it had increased to 290 millions. Five years later—in 1918—it had doubled that big total and was up to 572½ millions. This exceeded the whole net value of our imports in any year down to 1910 and the net value of any two years' exports down to 1905-6. In no single year have our exports ever equalled or even approached our foreign food bill of 1918. How far this was due to increased quantities or to higher prices matters little so far as the sterling exchange problem is concerned. What we have to do with is an enormous expenditure abroad, for which we have to pay either with goods, gold or securities.

We could not go on long spending abroad at that rate and exporting so little in comparison without reaching a crisis in which we should have neither goods nor gold enough to meet the claims of our foreign creditors. What it may be asked would happen then? Foreign bills on London would fall to a discount; that is, they could no longer be sold at their par or

face value. More sterling money (pounds sterling) would be needed to cover a given amount of the foreign currency to be exchanged for it. Already a slight depreciation has occurred. The par value of the pound sterling in dollars is \$4.86 cents, but in New York it is worth to-day only \$3.43. This represents an actual discount of 143 cents, or six shillings in the £.

In discussing questions of exchange, Canada ought to be included with the United States, as a large amount of Canadian business is nowadays settled through New York. It might be expected that in such an ancient and patriotic British Province the trade balance would naturally incline to the side of the old country. The best we can make of it, however, is a near approach to equilibrium. In the year 1913 we bought from Canada food and raw materials to the value of £30,488,000 and partly paid for them with £23,795,000 of British products and manufactures. But the balance against us of £6,693,000 would be more than covered by financial balances of various kinds against Canada—interests, dividends, freights, etc.

We have had much discussion lately about Food Controllers, but it will be seen that our real Food Controllers are thousands of miles from Whitehall. The chief of them are in North America, a second group is in South America: a third group is at the Antipodes on the huge and still virgin Continent of Australia. In the Near East there used to be a fourth—Russia and the Danubian Principalities, but the Bolsheviks have knocked it out to our great loss, as well as their own. Previous to the war, Russia was an important market for British goods. Our purchases from her of all sorts amounted in 1913 to £78,102,000 and consisted largely of foodstuffs, which have now disappeared.

Such a loss, though not of first-class magnitude, must have a considerable influence on our future supplies. It will increase our dependence on the other three main sources. If

these were very progressive the loss might soon be made good, but they grow slowly where they grow at all. Australia, before the war, was supplying us regularly with from 36 to 38 millions sterling a year of imports, and taking 34 to 35 millions a year of our exports. Our trade with New Zealand was, however, less closely balanced, consisting as it did of 20 millions of imports from against less than 11 millions of exports to. Even in this case no serious difficulties of exchange arise, but there are two other countries that present serious problems—India and Argentina.

During the war special arrangements had to be made with both of them for obtaining the full benefit of their food resources. In several successive years the Allied Governments bought up the whole Argentine crop and paid for it with two year bonds. On the last occasion the price paid was a milliard francs or 40 millions sterling. But presumably the bulk of this will go to France and Italy, while we shall have to look chiefly to North America for our share of the foreign supply. In 1913 our Argentine trade balance was 17½ millions against us, our imports having been nearly 41 millions against 22½ millions of exports. To all these adverse balances there was one great offset—the favourable balance on our trade with India. In the years before the war we were importing from India between 36 and 40 millions a year, while her purchases from us ranged from 57 to 70 millions a year. The balance against her thus starting at 20 to 30 millions a year was swelled by a series of military and financial charges. It was further complicated by extensive operations in the precious metals, Council Bills, etc.

Taking now a general survey of these countries on which we have to rely mainly for our food supplies, it is noticeable that they all have intricate foreign exchanges. In dealing with them it is essentially necessary to maintain as far as possible

the exchange value of the £ sterling as against all foreign currencies. On that largely depends the price of our food. The latest Board of Trade returns, those of 1916-17-18, illustrate the enormous effect that our food imports had during the war on our foreign trade. Let us place alongside of them for comparison the three last peace years, 1911-12-13. Appended to each table are the totals of the food, drink and tobacco imported in the corresponding years. These exhibit two remarkable peculiarities—first that in the three peace years, when our foreign trade was in a normal condition, food, drink and tobacco represented one-third of our total imports, while in the three war years they rose to $43\frac{1}{2}$ per cent. Second, in the three peace years they exceeded by 50 per cent. the whole excess of imports, while in the three war years they were 20 per cent. below it.

U.K. IMPORTS AND EXPORTS (THREE PEACE YEARS)
IN MILLION £'s.

				Imports.	Exports	Excess of Impts.
1911	...	...	...	£577.4	£454.1	£123.3
1912	...	...	...	632.9	487.2	145.7
1913	...	...	...	659.1	525.2	133.9
				£1869.4	£1466.5	£402.9

FOOD, DRINK AND TOBACCO IMPORTED.

1911	...	...	...	...	£263.9
1912	...	...	...	...	280.6
1913	...	...	...	...	290.2
					£834.7

($44\frac{1}{2}$ per cent. of total Imports.)

U.K. IMPORTS AND EXPORTS (THREE WAR YEARS).
(In Million £'s.)

				Imports	Exports	Excess of Imports
1916	...	...	...	£948.5	£506.2	£442.3
1917	...	...	...	1064.1	527.1	537.0
1918	...	...	...	1319.3	498.4	820.9
				£3331.9	£1531.7	£1800.2

FOOD AND DRINK AND TOBACCO IMPORTED.

1916	...	...	...	...	£419.1
1917	...	...	...	...	454.7
1918	...	...	...	...	572.6
					£1446.4

(43.4 per cent. of total Imports.)

In the last three years of the war, 1916-17-18, our trade balance was 1,800 millions sterling, against us, or an average of 600 millions per annum. How was this tremendous deficit made good? Partly by borrowing from the United States. Between April, 1916, and the end of 1918, the United States Government advanced to us 835 millions sterling, or rather more than one-half of our foreign loans. A similar sum was raised by selling our best American securities to New York. The exact amount of these sales has never been disclosed, but the estimates current on the Stock Exchange range from 600 to 800 millions sterling. This would still leave 200 or 300 millions to be covered by banking, shipping, investing and other earnings from abroad.

If our war borrowing in the United States had been confined to the Treasury its future effects would have been sufficiently serious, but in addition there were many other financial operations of a similar kind being carried on with private

lenders. The aggregate of these varying as they did from day to day cannot be stated for a given date, but 200 millions sterling would hardly be overstating it. At times it might be double that amount if we include the large balances which American houses hold in London banks for the sake of the exceptional rates of interest which were allowed on them by the Treasury. Nor does the difficulty end even there. We have been financing the war in various other countries with similar results.

To simplify the issue as much as possible, let us first deal with the United States alone. The question is how far our pre-war balance with that country has been modified by the war loans raised there and the large transfers of securities from British to American ownership. For a starting point we have to go back to 1913, and ascertain how the account between the two countries stood then. We then imported from the United States food, raw materials and manufactures to the value of £130,331,000, against which we exported British produce and manufactures valued at £29,294,000. On balance this left us at the end of the year due to the Americans rather more than a hundred millions sterling. And an equal deficit had been scored up against us annually for many years.

It had, however, given very little trouble to either country before the war. The Americans on their side were always running up a financial balance against themselves and in our favour. They were persistent borrowers and the service of their debt—that is, the annual interest and redemption charges, combined with a variety of other liabilities, roughly set off our adverse trade balance. These were ideal conditions of international trade. Both countries were in a position to benefit largely not only by their interchange of goods, but also by their financial relations. There was no unfair or unhealthy predominance between them. Neither of them had the whip

hand of the other, and nothing went wrong, which could not be quickly righted.

Now let us imagine all these favourable conditions reversed, and endeavour to forecast the probable results. Our adverse trade balance of over 100 millions sterling in 1913 is not likely to be less in the immediate future. It is more likely to grow than to diminish as far as our chief American imports are concerned—meat especially. Long before the war meat prices had been rising steadily in the United States. From the cattle ranches of the Far West to Smithfield and the butchers' shops of Mayfair, there had been a general advance. The war gave it a sharp fillip, which may take some time to spend itself. Within the past few days the writer has had ocular demonstration of this in the annual report of a Scottish-American Cattle Company. It cheers its shareholders with a comparative list of the prices realised for cattle sold off the range in each of the preceding five years :—

			STEERS		HEIFERS
1914	...	(dols.)	88.21	...	76.47
1915	...	...	86.51	...	68.17
1916	...	...	92.08	...	71.09
1917	...	...	122.40	...	94.94
1918	...	...	146.37	...	120.13

When that company started rather more than thirty years ago \$25 was reckoned a fair price for a three year old steer. Last year the same class of animal was fetching \$120. Such a rise is hard enough on the Americans themselves, but doubly or trebly hard on British consumers, who have to be mulcted afresh at half a dozen other stages of the long journey from Colorado to Liverpool. Extra railroad freights from the ranges to Chicago and extra selling charges at Chicago ; another extra freight by rail to New York ; extra charges again at New York ;

treble freights across the Atlantic, and a final lot of extras at Liverpool. Then the indignant consumer denounces imaginary profiteers, ignoring the iron law of economics, which forces prices higher and higher when the demand outruns the supply.

This condition has become chronic in the meat trade. It may ere long become chronic among cereals, and then food importing countries will begin to realise their disadvantages as compared with food exporting countries. There will be a wide difference not merely in their food bills, but in the balance of their exports and imports. Our American trade furnishes the best object lesson we could desire in this connection. On the very favourable assumption that our adverse balance on that trade will soon return to its pre-war level of about 100 millions sterling per annum, there will in future have to be added to it and not deducted from it as formerly a number of financial charges like the following :—

Interest at 4 per cent. on United States			
Government advances, say,			
£1,000,000,000	...	...	£40,000,000
Interest at 5 per cent. on banking			
loans, deposits in London, etc.,			
say, £200,000,000	...	...	10,000,000
Interest at 5 per cent. on, say,			
£600,000,000 of American securities			
returned to the United States			30,000,000
			<hr/>
			£80,000,000
Adverse trade balance	...		100,000,000
			<hr/>
Annual tribute to pay to the			
Americans	...	...	£180,000,000

There may be several offsets to the above annual charge, such as the expenditure of American tourists in the United

Kingdom : the American loans and issues of capital made in London, gold shipments to New York, and credit operations of various kinds, but in the aggregate they will offset only a small proportion of the £180,000,000. It is doubtful if they can reduce it much below £150,000,000, whereas further advances in food prices might considerably increase it. This would be a two-fold evil for us, first by raising the cost of living and producing a fresh outbreak of labour unrest ; second, by depreciating the exchange value of the £ sterling in relation to the currencies of the various countries from which we shall have to purchase our foodstuffs and raw materials.

CHAPTER XV.

THE FOREIGN EXCHANGES.

A direct consequence of the war was a complete revolution in the world's principal monies. With one notable exception—the United States dollar—they emerged from the great upheaval discredited and woefully reduced in value. The German mark, which suffered most had only 10 per cent. of its legal parity left. The pound sterling, after being pegged up throughout the war, slumped 12 per cent. immediately the peg was taken out, and has since dropped another 20 per cent. The American dollar got a bad shock at the outset of the war, but later on had its revenge on the European currencies, which cornered it for a few weeks.

The most remarkable and at the same time one of the most instructive episodes in the history of international exchange occurred at New York in the first three months of the great war. New York was caught a heavy debtor to Europe, very short of gold, quite bare of exchange, especially sterling, and its foreign trade at an absolute deadlock. The banks received such a shock from the war that on the very day it was declared they had to go on a "Clearing House certificate" basis for lack of legal money enough to go round. A New York cable of August 3 announced that the "Clearing House Association, consisting of 61 members, including banks and trust companies, met early this morning and voted to issue clearing

house certificates for payment of obligations between banking institutions."

The Association did this because, owing to European conditions, "every means should be adopted to protect the United States gold supply." Another resolution made available in payment of balances all forms of currency issued under Government authority. Besides New York other cities also adopted clearing house certificates. while State and private banks exercised their right to require thirty days' notice of the withdrawal of deposits. These special arrangements succeeded in relieving the domestic congestion. They had been frequently tried before and American bankers were familiar with them. But they had no effect on the foreign deadlock. Only substantial shipments of produce or of gold or securities could solve that deadlock. Fortunately, the crop moving season was drawing near and every effort was made to hasten it. Nevertheless sterling exchange stood for weeks at the abnormal level of \$5 and over.

As between Europe and America the exchange situation in those first months of the war was highly ironical. America had the goods which the belligerent Powers required for making war, but could not ship them for lack of credits in Europe with which to finance them. Meanwhile, the Bank of England and the Reichsbank were filling their vaults with gold, for which they had no use except to exhibit it in their weekly returns. It must have been a little galling to New York bankers to read of the Reichsbank's gold holding having increased £88,000,000 in a few months. They shook their heads and thought that "such a remarkable achievement by the German institution could be scarcely credited. The Bank of England's heavy gain in this particular item, was easily explained by known facts, such as the weekly Transvaal deliveries in London, Canada's production, gold exports from us (United

States) to Ottawa, &c., but Germany and German banks had no such resource, and the outside world could hardly be contributing gold to them at all."

Not the least interesting incidents in a foreign exchange crisis are the banking devices employed to solve it or to relieve the strain of it. New York, in 1914, had to try quite a variety of these. There was first the Gold Pool Committee, which invited applications for cable transfers to London and promptly received them to the amount of 100 million dollars. How the operation panned out for the Committee does not appear, but the effect on sterling exchange was beneficial. The rate at once began to decline and continued to fall until it became normal. Had it stopped there all might have been well, but the tables were so completely turned against London that the pound sterling landed at last in a worse plight than that from which the dollar had been rescued.

November, 1914, was the next land mark in this sterling exchange episode. In the interval many things had happened. The new Federal Bank Law had come into operation. The two British Commissioners, Sir George Paish and Mr. Blackett, who had been sent over to consult with the American bankers, and the Treasury, as to the best means of steadying exchange rates had finished their work and returned home. Wall Street was preparing to re-open, as were also the Boston, Chicago and San Francisco Stock Exchanges. The New York Clearing House certificates outstanding had been reduced to \$120,000,000. Money was growing easy, trade was recovering, and enormous orders for munitions were beginning to come in. War loans were also coming into view, hence the sharp swing of the exchange market from the sterling side to the dollar side. The end of November saw the last of the New York premiums on European exchanges. On November 25 sterling demand drafts were quoted $\$4.88\frac{3}{4}$ cents., and Cable Transfers $\$4.89\frac{3}{4}$, Paris demand drafts $\$5.11$, and Berlin ditto $.81\frac{3}{4}$.

The faculty most needed in the study of economic questions especially banking and currency, is a sense of proportion. Dealers in foreign exchange have to apply this faculty to estimating the relative importance under varying conditions of the materials at their command for effecting monetary movements. At one time gold may be easiest to transfer to the required point; at another it may be bills of exchange; at another it may be international securities. The market supply of each of them varies widely. Even gold has its gluts and its scarcities. In Europe we hear oftenest of gold famines and judge accordingly. We get into the habit of thinking that no one can ever have too much of the yellow metal.

But though that may be true of individuals, it does not apply to the money market. It can easily have too much gold for its immediate needs. That anomaly occurred in various countries during the great war. In payment of the enormous sales of food and war materials, they made to the belligerent Powers they got so much gold that they did not know what to do with it. In Scandinavia some of the State banks declined to take any more. In the first year of the war New York was so flooded with it, that the banks which were financing contracts for hundreds of millions of dollars, advised the Entente Powers to keep their gold and issue loans instead. This happened to be good business for both sides—so good that it went on swimmingly to the end of the war. Whether it was good finance for the British taxpayers is not at all so evident. Easy borrowing and careful spending seldom go together.

The special bearing of this incident on foreign exchange lies in the magnitude of the illustration and in the surprise it gave the Americans. Their enormous importations of gold from Europe had produced two results, for which they were not prepared—a serious decline in sterling exchange and an unwieldy gold reserve. When sterling had dropped from its

legal par of \$4.86 to \$4.75, comments like the following made their appearance :—

“ The continued decline in sterling exchange—the rate fell to \$4.71 on Saturday, the normal rate for £1 being \$4.86—is the cause of grave apprehension to American bankers. Mr. Harper R. Marsh, editor of the *Economic World*, after pointing out that the total distortion in the exchange relation between the United States and Europe now amounts to at least £600,000,000, said :—

“ ‘ To correct this distortion it is, in my opinion, urgently necessary for us to lend the Allies amounts equal to their purchases. It is no use for them to send gold to us. Our vaults are bulging with gold. Where gold is really needed is in Italy, France, England, and Russia, as a support for the vast quantity of outstanding obligations, public and private.’ ”

The new foreign exchange regime is likely to keep conventional traders and bankers well supplied with surprises. Nor will it be lacking in anomalies and strange experiences. What are we going to think when we find that our principal debtor before the war—the United States—has suddenly become our principal creditor and not only so, but that in future it is to be our most formidable competitor in the markets of the world. The British Treasury will be a cosmopolitan debtor, owing money all round. In most of the neutral countries it was during the war a wholesale purchaser on credit. It gave bills, bonds, securities—anything in short that would serve for the time being as money. Much of this paper may be still outstanding, but fortunately we know where the bulk of it is.

A multitude of new and unknown forces are entering the foreign exchange field and increasing the intricacy of its operations. They constitute so many additional problems to be investigated and solved as we best can. Some of them

may have a favourable influence on the exchange operations of the future, but the chances will be oftener the other way. One unfavourable contingency, that the banks may have frequently to meet extraordinary demands for money ; not exactly runs or panic demands, but slow and silent drains. More than once toward the end of the war the Reichsbank was subjected to such a persistent attack on its deposits that President Havenstein had to address a grave warning to the Central Board.

For us the most difficult and at the same time the most mishandled problem of the war was the maintenance of sterling exchange. The difficulty was greatly increased by the needless mystery in which it was involved by the Government. Not understanding the problem themselves and having no idea how it might turn out, they determined to keep it dark. Consequently, they placed themselves in the hands of exchange experts, who undertook to hold up the pound sterling on a practical level with the United States dollar. For this purpose they had to provide offsets to our enormous purchases of American munitions, bread stuffs and general supplies. These had to be articles saleable in the United States and in New York for choice.

Fortunately, at this time the British stock market was well provided with first-class American securities—railway bonds and stocks in particular. These were speedily bought up and transferred to the other side of the Atlantic. But they only filled up the gap for a short time. Second class securities had to be sent over after them, and latterly the Committee in charge of the operation were glad to get hold of the most out of the way stocks. In the end they had to extend their purchases to South America and New York was enriched for the time being with British holdings of Argentine, Brazilian and Uruguatan investments. Similar financing was done in

Spain, Holland and the Scandinavian States. Even Japan had to be utilised for upholding the pound sterling.

These elaborate arrangements were carried on entirely in the dark. The public and even members of the Government had not the slightest suspicion that the daily quotation of sterling exchange in New York at \$4.76 was purely artificial. It gave them a shock when after the Armistice the peg was taken out and the sterling rate began to drop day by day until it got down to 142 cents., or 6/-, below its legal parity. An intricate question for future discussion will be whether the pegging up of exchange was or was not a cause of greater expense than leaving it alone would have been. To determine this elaborate comparisons between the losses sustainable under each method would be necessary.

Under the Treasury plan, there was a considerable risk of loss on the sales in New York of the securities purchased in Europe and sent over there. Exact information on this point might have been published as soon as the purchases stopped, but months passed without a sign from the Treasury. It was not until the Budget of 1919 and then only in reply to a question by Sir Norton Griffiths that the total amount of the purchases "for stabilising exchange" was disclosed. Mr. Baldwin, the Joint Financial Secretary to the Treasury, replied that the "nominal value of securities bought for the purpose of maintaining foreign exchange is approximately £223,300,000 and the nominal value of securities deposited under the Treasury schemes is approximately £404,000,000."

Both these figures excited some surprise, the first being much lower and the second much higher than had been anticipated. Previous to the war the amount of United States securities held in the United Kingdom had been eagerly discussed with a great diversity of conclusions. Some authorities had put the total as low as £300,000,000 or £400,000,000 and

others as high as double these amounts. Assuming that the Treasury operations embraced two-thirds of the whole amount in the country we might arrive at a rough estimate of the latter by adding one-half to the combined total of the £223,300,000 purchased and the £404,000,000 borrowed, say, £627,000,000. But this calculation is vitiated by the fact that the £404,000,000 of borrowed securities consisted largely of non-Americans.

Latterly, any kind of collateral which would pass muster in New York was being thankfully accepted by the Exchange Committee. During the last month or two before the entry of the United States into the war which event threw open the United States' Treasury to the Allies, every financial centre in the world was being ransacked for pawnable securities. As it turned out the scare was overdone, and more collateral was piled up in New York than could be utilised. Mr. Baldwin in his reply to the question above mentioned stated that "it had not been necessary to use all these securities"—a remark likely to apply more to those borrowed than to those purchased. This impression is confirmed by the recent action of the Exchange Committee in returning some of the borrowed securities.

Doubtless various other expedients for maintaining the pound sterling at gold level were adopted by the exchange experts in charge of the operation, but the transfer of securities from Europe to New York had been by far the largest factor in it. They were also the largest transactions of their kind on record, and how they worked out was one of the most interesting financial questions of the war. One thing is certain about them, and that is the heavy cost at which they were conducted. Office expenses, law expenses, freight insurance and commissions must have swelled into hundreds of thousands sterling. But the principal item would be the losses on realisations. As a rule, the sales had to be made on falling markets, while some of the falls might be severe.

It was, therefore, a happy thought to limit the risk of loss by borrowing securities instead of buying them outright. But even that would not wholly eliminate losses. The New York bankers would require a safe margin for their loans on the borrowed securities and the Exchange Committee would have to make up any deficiency on it which might arise in the course of market fluctuations. No responsibility for these could fall upon the owners of the securities, who, under their agreement with the Government, would be entitled to a return of the specific stock or bond lent. In addition, they were promised a bonus of one-half per cent. extra interest, which would be a material item of expense. One-half per cent. on £404,000,000 would be fully two millions sterling a year : not a large item in the thousands of millions we owe the United States, but still not to be wholly overlooked.

Our financial account with the United States is the most complex, as well as the most gigantic, that ever existed between two countries. It comprises :—

First, the advances of the American Treasury, estimated at a round 1,000 millions sterling.

Second, the advances of American bankers on the £404,000,000 of pledged securities and other bank loans, say, 500 millions sterling.

Third, commercial debts for foodstuffs, raw materials and general produce, say, 250 millions.

Fourth, American holdings of British securities.

The grand total of our indebtedness to the United States is more likely to be over than under 2,000 millions sterling. Five per cent. interest on this would be 100 millions a year. Couple with it 100 millions of an adverse trade balance and we have an annual tribute of 200 millions to pay to this one country ; a country which, by the way, we were only a few years ago financing to the tune of hundreds of millions yearly.

Such a change as the war has made in our relative positions amounts to an economic revolution. It may require whole decades to consolidate. One of its most disquieting features is the small amount of public attention which it receives either in Parliament or out of it. Even the Chancellor of the Exchequer, whose special responsibility it is, treated it in a very perfunctory fashion so long as it could be tabooed. But the inevitable crisis came and on August 7 (1919), in the debate on the Consolidated Fund Bill, he had to face it.

He approached the subject of foreign exchange by lamenting the lack of foreign markets where people were able to pay for their purchases. There were plenty of markets willing to buy on credit or with borrowed money. But that, he said, "did not help him to rectify the exchange. The only way they would do that was by selling in markets which could pay." He then talked vaguely about the pegging up process which had been resorted to during the war, and to explain why it could not be continued after the return of peace :—

"During the war it was necessary to peg up certain of the exchanges. The most important one for us was the American Exchange. By artificial means we maintained the exchanges at a certain level when natural causes would have forced them below that level. That was not a process with which they could go on for ever. It was very costly. The time came when he thought he had to withdraw the peg. He thought his action commended itself to those competent to judge and to the House. He was quite sure it would be fatal to try to put the peg back. That would be retrograde."

So far, Mr. Chamberlain was not very illuminatory. He altogether failed to impress the House or the country with the gravity of this exchange problem. He gave us no facts to illustrate the pegging up experiment and its results. For fully four years a specific operation had been carried on,

of which doubtless adequate particulars were on record. The wider publicity given to those details the more thoroughly they would have been discussed and the better a chance there would have been of a proper course of action being adopted. Had such a problem arisen in the United States Congress it would have been threshed out in half a dozen different ways—in the Senate, in the House of Representatives, by the Press, by Chambers of Commerce, by Bankers Associations and at every meeting of business men.

The Americans would have begun by getting the facts and they would have ended by doing something with them. The House of Commons never asked for the facts, never had the slightest idea of them, and never took any practical action regarding them. It was content with the generalities served up to it by Mr. Chamberlain, of which the following is another sample :—

“ Adverse exchange rightly understood was not a thing which one could deal with by any artificial measures, even temporarily, as we did during the war under great pressure. One could not do it permanently. It was a danger signal which showed that the traffic in and out was not working properly, that the traffic in was too heavy and the traffic out was too small. You could only rectify those exchanges by increased production and increased exports, and unless we succeeded in doing that quickly everyone, from the richest to the poorest, was going to have a very bad time.”

Mr. Chamberlain's warning was well-timed and well-worded, but like all his previous warnings and those of his predecessor, Mr. Bonar Law, it would be wasted breath. He did not give a single fact to show the nature of the crisis or how the peril operated. His own ideas on the subject were obviously hazy, for he treated it solely as a question of exports and imports, whereas it was much more. The most threatening

of all the dangers involved in it was our tremendous debt to the United States. This gave the United States a whiphold on us which would render us powerless in any sort of competition with her—financial, industrial or commercial. The short list of our American liabilities given above shows a total approaching 10,000 million dollars. At the lowest estimate the interest on that would be 500 million dollars, which converted into sterling at the rate of $3\frac{1}{2}$ dollars to the pound would be 140 millions sterling.

The mere interest on such a debt without reference to sinking funds would in a short time become unendurable. Sterling exchange would sink lower and lower under it and every cent of a decline would increase the cost of the interest payments by five million dollars. Should the pound sterling decline to an even three dollars—not at all an improbable event—our tribute to the United States would increase to 170 millions sterling a year. This, for interest alone, leaving little or nothing for the grain, cotton, provisions and raw materials for which we shall continue to be dependent on our American creditors. By hook or by crook our American debt should be got rid of, either by paying it off or converting it into a sterling loan.

CHAPTER XVI.

THE SLUMP IN STERLING.

Seldom, if ever, in the world's history has any nation undergone such a rough and ready process of disillusionment as befell the British public in the first year after the great war. Previous to the war they had been looked up to as one of the richest nations on earth. Their wealth was considered inexhaustible. They came out of it, according to their own account in a state of bankruptcy. They went into it as a leading creditor nation with thousands of millions invested in foreign countries. They came out of it stripped of their best foreign investments and owing money abroad on all hands. They went into it with a strong lead in the world's shipping and foreign trade. They came out of it playing a poor second to the United States. They went into it the money centre of the world. They came out of it with a discredited currency and adverse rates of exchange against the principal markets of the world.

The downward turn was complete and indisputable. It could be measured day by day in foreign exchange rates, especially in New York equivalents of the pound sterling. These became a barometer of English credit and when they kept on falling for months on end even popular politicians, who had hitherto thought of little but their £400 a year began to feel uneasy. So gradually did the bad change come about

that no one thought much of it until it became alarming. Then a vast majority of them found themselves all adrift. They had been taught nothing of the intricacies of foreign exchange. Their universities, their colleges, their public schools, and even their commercial schools, had tabooed it as a subject fit only for experts. The crisis found them in a state of universal ignorance and the penny press had to start a course of lessons for its readers in foreign monies.

The teachers themselves were inexperienced and began by committing some humorous mistakes. One of the most frequent was to confuse the British pound sterling with the British sovereign—two perfectly different things. The pound sterling is simply a unit of value, which may consist of gold, silver, copper or paper. It may be secured wholly or partly or not at all. As a matter of fact, the principal representative of the pound sterling of to-day—the currency notes—have barely 8 per cent. of metallic cover. On the other hand, the sovereign is a gold piece of definite weight and quality. It has not been directly affected by the commotion in the foreign exchanges. Indirectly, it has gained rather than lost value, and the nations who hold most of it will be the best able to see this trouble through.

It is only against the pound sterling that New York discriminates. The golden sovereign is as welcome as ever there. So long as it maintains its legal weight and quality it will pass current all the world over the same as before the war. All the present trouble is with the paper money of the country, consisting on October 3, 1920, of :—

BRITISH PAPER MONEY (October, 1920).

Currency Notes	...	...	...	...	£352,947,000
Bank Notes—					
Bank of England	£126,486,000				
Joint Stock and Private Banks in England	...	£164,269			
		—	£126,650,269		
Scottish Banks	...	...	£28,905,000		
Irish Banks	...	...	£26,117,000		
			—	£181,672,269	
				—	£534,619,269

GOLD HELD AGAINST IT.

Against Currency Notes	...	...	...	£28,500,000
„ Bank of England Notes	£123,195,000			
„ Joint Stock Bank Notes :—				
Scotland	...	...	£28,315,000	
Ireland	...	...	£21,080,000	
			<hr/>	£172,590,000
				<hr/>
				£201,090,000
Amount of uncovered Notes	...			£333,529,269

The theory of our pre-war bankers was that 30 per cent. of gold cover was sufficient to maintain at par the then paper circulation of about a hundred millions sterling. But the best banking opinion favoured a large addition to our gold reserves in view of the enormous increase that was being made in our banking deposits. Without the war or any other violent disturbance in the financial credit of the country a substantial increase in our gold stocks had become

necessary. For years that fact had been acknowledged both by our banking and Treasury authorities, who must now share the blame of neglecting to act on their conviction of what was necessary to the safety of our banking system.

Even though enlarged gold reserves might not have carried us much farther across the torrent of war expenditure, let loose on us by our champion spenders, adherence to the old system would at least have acted as some check on them. On the contrary, every possible check on expenditure was removed, and the pound sterling became a plaything of politics. First, the money market was flooded with currency notes. Next, the House of Commons, by renouncing its right and duty to supervise the war expenditure gave the champion spenders a free hand. Then the embargo put on the precious metals destroyed the convertibility of the paper money and reduced a huge mass of it to legal tender. Finally, extravagant borrowing abroad depreciated the pound sterling in comparison with foreign currencies.

These were the four direct causes of the so-called "collapse of the pound sterling." They might have been counteracted by a proportionate increase in our exports so as to create a set off abroad to the sales of British currency necessitated by our greatly increased foreign liabilities. But here a veritable tragedy comes in. Before the war we had accumulated during a long course of pedantic free trade a large adverse balance. This was swelled six or sevenfold during the war, and after the war, instead of being reduced, as was generally expected, it went on growing. Thus three sets of causes operated together against sterling exchange, in other words against the solvency of the pound sterling. One was the changes made in our currency system, another the enormous multiplication of our foreign liabilities, and thirdly the great falling off in our exportable produce.

Here a peculiar circumstance has to be explained, or, at least, an explanation has to be attempted. No one outside of the Treasury can have information enough to unravel the mystery in question. It may be remembered that all through the war sterling exchange was pegged up in New York about \$4.76—ten cents under its legal parity of \$4.86. Allowing for the increased cost of freight and insurance of gold \$4.76 was in fact gold parity. But what really mattered was that the Entente Governments themselves were the only dealers in exchange. They controlled practically all the available gold and could move it about at their pleasure. They were the only buyers and sellers of sterling exchange. They had at their command all the banking resources of London, Paris and New York for the manufacture and transfer of credit. Some of their movements were of such magnitude that they could not be entirely concealed, but for every one that reached the light scores are still lying in oblivion.

As far as outside observation can carry us, the following were the principal factors in the maintenance of the pound sterling all through the war at a nominal rate of \$4.76 cents:—

First, the large indebtedness of the United States to Great Britain on the eve of the war.

Second, the heavy return of American securities from Europe during the first twelve months of the war.

Third, the Anglo-French loans contracted in New York by the British and French Governments.

Fourth, the loans contracted in New York by London and Paris banks.

Fifth, the commandeered securities, valued at over 800 millions sterling, sent over to America by the British Treasury.

Sixth, the gold collected in Europe by the Allied Governments and transferred to Washington.

Seventh, the manipulation of exchange by the New York

banks under the direction of Messrs. J. P. Morgan and Company. the British Financial Agents.

Eighth, extensive credit operations entered into with the American contractors for war supplies.

Ninth, last, but not least, the generous advances made to the Allies at Washington after America entered the war.

The combined result of all these resources might easily amount to thousands of millions sterling. After all it should not be so very surprising that they succeeded in keeping the pound sterling close up to legal parity all the time that war expenditure was in full blast. The operation was admitted by one of the three Chancellors of the Exchequer concerned in it—Mr. Austen Chamberlain, I think—to have been very costly. But it required no great amount of brain power in Downing Street, all the working arrangements having been made in the City and New York. At the close of the War, Ministers retired gracefully from the scene. They raised all their war restrictions on the movements of gold and silver. They withdrew their veto from dealing in foreign securities. They relaxed their stranglehold on the Stock Exchange. And, as a crowning feat of statesmanship, they decided to leave the pound sterling to find its own level.

But this last move proved a much more serious one than they had bargained for. It is perfectly clear from the rapidity with which the sterling exchange dropped day by day after the peg was taken out that no official arrangement had been made to prevent such a collapse as actually happened. Mr. Lloyd George admitted this much in his three-hour speech on the adjournment of the House of Commons in August, 1919. That speech, instead of calming the alarm which had begun to be felt at the fall in the exchange, aggravated it. On the day after it was delivered, New York sold sterling down to \$4. 11 cents

—75 cents, or three-quarters of a dollar below its legal parity. This meant that on every pound we had to pay to the Americans

For interest on debt,
For repayment of debt,
For imported food and raw materials,
For excess of general imports over exports,
For credit operations of various kinds,
For the use of American capital in British enterprises,
For dividends on British securities held by Americans,

and a score of other imaginable objects a premium of 75 cents or 3s. An exchange expert showed how this penalty would work out, as follows :—

“ Every decline in the value of the pound sterling in America meant an additional burden on the British taxpayer and food buyer. This country owes America an enormous sum of money for purchases of food supplies, munitions, and other material during the war. Mr. Lloyd George stated that our debt to America and Canada totalled £1,200,000,000. Assuming that the debt to the United States is £750,000,000 and the rate of interest is 5 per cent., Great Britain will pay to America the equivalent of £37,500,000 this year. At the present rate of exchange (compared with the normal rate), this payment in dollars would make a clear loss of £6,000,000 in one year, without taking into account the repayment of any part of our indebtedness.”

But that is nothing to the loss we shall have to face on our adverse balance of trade. The expert already quoted observes on this point :—

“ Then there is the trade balance between the two countries—roughly, the difference between what America exports to Great Britain and what Great Britain sends to America.

This balance is largely against this country because our imports are far heavier than our exports. We are still enormous importers of :—

Meat.	Cotton.
Cereals.	Tinned goods.
Petroleum.	Machinery.

And these imports, largely unavoidable, augment the adverse trade balance, which will amount this year to between £700,000,000 and £800,000,000. Here again, the loss on exchange means £112,500,000 in the year."

In our sterling slump the British manufacturer loses both ways. In the countries from which he draws his raw materials, including food, the pound sterling is at a discount, but in the countries to which he sells his goods it is at a premium, so he is doubly hit. When Mr. Lloyd George delivered his three-hour speech (August 18, 1919), the approximate value of the £1 note in France was 27s., in Germany about £4 10s., in Italy 31s. 6d., in Holland 19s., and in Norway 20s. 3d. From those figures you appear to get a better relative world standard for the British pound than before the war, but instead of getting goods from most of these countries we are in the position of having to supply them. Therefore, we don't get any advantage. America is practically the only country which exports to us, and, consequently, we are suffering badly from the fall in the American value of the £1 note.

For the first seven months of the Armistice the decline in sterling exchange was slow and gradual. At the end of June, 1919, the loss was only 50 cents of its par value in United States dollars. In July the fall was more rapid and in the first days of August it became sensational. In the fortnight from July 24 to August 7, the principal rates of exchange moved as follows :—

		£ Sterling equal to		Difference.	
		July 24	August 7	Per. cent.	
France	...	31.10	33.80	...	8.70
Belgium	...	32.15	34.90	...	8.55
Italy	...	37.58	38.60	...	2.71
New York	...	4.39	4.31	...	1.66
Norway	...	18.45	18.32	...	.70
Denmark	...	19.55	18.80	...	3.83
Sweden	...	17.55	17.32	...	1.31
Holland	...	11.57	11.53	...	.34
Spain	...	22.80	22.85	...	.22

Mr. Lloyd George, though by his own confession he is an ignorant unbeliever in political economy, can give very graphic pictures of economic movements. In his three-hour speech he thus described the part played by coal in our foreign trade :—

“ Take coal, which enters into almost every production and manufacture. There can be no more serious blow at the business and trade of this country than the diminution in the output of coal. Our trade depends more upon it than upon any other commodity. It fetches food and raw materials, and it pays for them. When you send to the Argentine to fetch wheat for bread you pay largely for it with coal. Where there is a diminution in the production of coal, it means food and raw materials must go up in price, it means our shipping will be hit and our international trade will be ruined.”

In the following four years this same Mr. Lloyd George pandered to the demands of the coal miners until he had reduced the coal trade to an intolerable dilemma when he was forced to turn against them and risk a national strike.

Unfortunately, Mr. Lloyd George's economic speeches were more dazzling than illuminating. That his handling of the sterling exchange crisis aggravated the alarm it was causing,

may be seen in the daily market reports. The following is from the *Daily News* of August 23, 1919—five days after the three-hour speech was delivered :—

“ A reference to our table of foreign exchange rates will show how extremely unsatisfactory the position is again becoming. Within the past few days the rates upon Spain, Switzerland, Holland, and the Scandinavian countries have fallen heavily, that is to say the value of the sovereign has depreciated considerably, while the rates upon France, Italy, and Belgium have advanced rapidly. Of more significance still is the big fall in the New York rate, a fact which explains to some extent the adverse movements in other rates. There can be little doubt that Mr. Lloyd George’s speech has intensified the feeling of nervousness, or that importers of American goods in this country, fearing that the exchange may move still further against them, are making purchases of exchange now in anticipation of the goods, principally cotton and wheat, which will be coming forward a little later from America. The coming removal of restrictions upon imports is also at the moment intensifying the depreciation of the sovereign in foreign markets, added to which there is the freedom just granted to send money abroad for other than trade purposes. It may be that the fall is being overdone, but there is a general feeling that the position may easily become worse before it becomes better.”

Our losses on American exchange are of six different kinds. First, in the annual charge on our war debt to the United States. Second, on the excess of our imports from over our exports to America. Third, on the fall in value of our sterling securities held in America—railway shares and bonds for example. Fourth, in competition with the United States in foreign countries for loans to be taken out in goods. Fifth, in competition with American exports to foreign markets,

notably South America. Sixth, in competition with American commodities in our home markets. This last danger has been pooh-poohed by the Prime Minister, but that does not prevent shipments of iron and steel arriving at British ports.

These losses, it will be observed, are of two distinct classes—financial and commercial. Two different kinds of remedy are required for them. The financial causes demand prompt and vigorous action, while the commercial causes are only to be removed by slow and patient effort. The simplest case of all is the depreciation of the currency. The facts as to that have been thoroughly exposed in Parliament and the Press. They have been officially investigated and reported upon. The City is familiar with them, and it is only in Downing Street that any uncertainty or hesitation is felt regarding them. The arch offender here is the 350 millions of currency notes. To a large extent it represents war waste. It is the worst element in an excessive supply of currency and, therefore, it should be drastically reduced.

But the commercial factor in the case is much more complex and difficult to treat. It calls for a commercial policy adapted to the occasion, but of which there is as yet no sign in Downing Street. It calls equally for systematic and conscientious effort on the part of employers and workers to reduce our adverse balance of trade to solvent proportions. These two objects should be pursued harmoniously, but as a matter of fact they are antagonising each other. The Government are working on democratic lines and for democratic ends. Their talk about "key industries" is a blind to get control of the principal imports of the country and dictate to the owners how they shall be carried on. After much backing and filling their game in this connection was artlessly disclosed by the Prime Minister in his three-hour oration.

The importers and business men generally saw through it

and promptly put their foot on it. This was the evident meaning of the supplement to his speech issued two or three days later by Mr. Lloyd George. It explained how nicely everything was being arranged by the Board of Trade for the support of "unstable industries." The Government, it was said, would take power "to prohibit the import except on license, and on payment of a license fee of the products of any industries which are in an unstable position in this country." Apparently, this pretty piece of bureaucracy was offered as a substitute for the tariff scheme, which the tariff reformers had been expecting. The House of Commons was to be asked to hand over its tariff making to the Pooh-Bah of the Board of Trade !

The shortest and easiest way for any impecunious trader to obtain protection was to place himself under the guardianship of a licensing authority. Then, at a moderate expense for license fees he might have import duties fixed to suit himself. But the House of Commons shortly began to think that it has already had enough of the bureaucratic craze to be a god almighty at Whitehall. The same issue of the morning papers that contained the "unstable industries" scheme, furnished some remarkable examples of Board of Trade licenses in operation. Sir John Benn described one of them to the shareholders in Benn Brothers (Limited), the publishers of trade papers. Early in the war the paper trade was put under a Controller who contrived to raise the price of printing paper from 1½d. per pound to 1s. 8d. Whereat the trade rebelled and got the Controller demobilised.

It was thought by the happy victims that they were now to be left free to buy their paper where they pleased, but they were reckoning without their bureaucratic limpets. The Board of Trade took on the Controller's job and continued to license imports with the result that printing paper is now dearer

in England than anywhere else either in Europe or America. Sir John Benn thus described the situation :—

“ When peace came we looked forward very naturally to returning to a commercial basis, but I regret to inform you that even to-day the paper market is very far from that condition. Such paper as we are using is quoted at double the price for which it can be bought in the United States and in Canada, and I am informed that it can be obtained for even less in Germany. Our company is, therefore, paying many thousands a year into the pockets of paper makers, mainly because our bureaucratic governors have decided to maintain a system of import restrictions.

Sir John Benn found himself worse off under the Board of Trade than he had been under the Paper Controller. It can be easily seen how the system of Board of Trade licenses announced by Mr. Lloyd George in his three-hour speech might establish the worst conceivable form of bureaucracy. It was bad enough during the war, but now we have added to its natural abuses the risk of complications in foreign exchange. If British coal-owners, railway companies, ship-owners, manufacturers and exporters are to increase production and reduce our adverse balance of trade they must have a free hand to do it. No “ bloated bureaucrat ” can decide how much paper or paper pulp is to be imported. It is a settled fact, confirmed by the experience of every Control Board that interminable delays are caused by licensing and permits. While they continue, it will be practically impossible to increase our manufactured exports to an important extent. In so far as sterling exchange depends on them it will mend very slowly.

Another puzzling feature of the sterling exchange situation is the uncertainty that prevails as to the stocks of goods held by the Government. Ministers do not seem to know themselves and least of all the Prime Minister. In his three-hour speech

he made several extraordinary statements with respect to pig iron and steel rails. In reply to interjectional remarks about American rails having been put down in Glasgow at less than Scottish prices, he said, "The mere fact that they got in, notwithstanding our power to exclude them, shows that they were actually needed by the trade." Then he gave us a still worse case—that of pig iron. "We are," he said, "so short at present of pig iron that there is not enough to employ our steel furnaces. What is the result? We are begging for pig iron from Lorraine. . . . We are asking America to send the goods, and we are prepared to pay any price."

Later on enormous war dumps came to light, which had they been promptly dealt with after the close of the war would have greatly eased both the industrial and the exchange situations!

CHAPTER XVII.

CAUSES OF THE EXCHANGE CRISIS.

In the middle of August, 1920, the House of Commons adjourned for its summer holiday after seven months of an excited disputatious and on the whole unfruitful session. No work of any importance had been accomplished, either political or financial. On the contrary the financial situation had grown steadily worse, both internally and externally. Of the latter there was positive evidence in the continuous decline of sterling exchange. The New York rate on London had been down in the previous February to under 70 per cent. In other words, the pound sterling was worth in New York only seven-tenths of its face value or, say, 14s. In the next three months it had rallied 10 per cent., bringing it up again to 80 per cent. Then the autumn slump set in. Our heavy imports from America of foodstuffs and raw materials had to be financed. Sterling bills flooded the Money Market, and the rate fell again to 70. At that figure the pound sterling was worth only about three and a half dollars.

What that meant to British trade and finance is one of a series of ugly facts, which have never yet been looked straight in the face, least of all by our bureaucrats and politicians. They preserved their sanity by firmly shutting their eyes. Had they kept them half open they might have perceived that a discount of 30 per cent. on our sterling money increased our

indebtedness to the United States (which was estimated at £2,000,000) by £600,000,000, and added over £150,000,000 to the cost of our imports from the States in 1918 (valued at £515,000,000). These two facts alone should have given our rulers furiously to think, but they seem to have delegated their thinking to professors and philosophers who live in a world of their own, from which they look down serenely on the bewildered politicians. Thus left without practical guidance, the bewildered politicians perpetrate the most amazing blunders. Their mismanagement of the coal trade, for instance, was from a sterling exchange point of view a sight to make angels weep.

Coal is the most important British export. It always commands a ready and remunerative market. The proceeds return home quickly and regularly to help us to pay for our excessive imports. When exchange was going against us a speeding up of our coal exports would soon right it. This simple lesson shining, as it did, all through the last thirty or forty years of our commercial history, was not, however, applied. It was worse than ignored. With a maximum of stupidity it was absolutely reversed. Our coal exports, instead of being stimulated, were subjected to a maze of restrictions and prohibitions, which came very near wiping it out altogether. In fact, the miners, in whose interest all these suicidal regulations had been imposed, ended very appropriately with an attempt to shut down every mine in the United Kingdom. Had they succeeded the consequence would have been a complete collapse of British industry.

Food and fuel are the two vital factors of our national existence, and both of them have been deplorably muddled by our politicians for years past. This was the beginning of the slump in sterling exchange. It had made considerable progress before the war, but the war years heaped blunder on blunder. Already more harm has been done to our industrial system

than the wisest management will be able to undo in twenty years. We may be thankful that the crazy idealists are reaching the end of their tether. At the last meeting of the British Association, even the academic optimists began to show symptoms of alarm. Dr. Clapham, the President of the Section of Economic Science and Statistics, predicted an industrial slump—a very safe prophecy to make after ten years of demented labour and demoralised values. But he consoled his audience with a hope that they would be let down easily.

“We should do very well,” he said, “if we had nothing worse than that gradual decline, which would be eased in our case by our extensive connections with undamaged countries and by our willingness to buy most things which any nation had to offer. The situation would be still further eased if countries such as Germany and Russia were to develop a reconstruction demand to take the place of the satisfied reconstruction demands of our Allies. But the quite reasonable fear expressed in some well-informed quarters was that in view of the complicated and dangerous currency position in many countries, of the difficulty which the war damaged nations had in collecting taxes enough to meet their obligations, of the slowness with which some of them were raising production to the level of consumption, and of the complete uncertainty of the political and economic future in much of Central and Eastern Europe, and quite apart from possible political disturbances, we should have to go through a genuine crisis as distinct from a depression; a crisis beginning in the field of finance, when some international obligation could not be met or some international credit could not be renewed, spreading to industry and giving us a bad spell of unemployment, comparable with the unemployment of the post-war period a century ago, and more dangerous because of the high standard of living to which the people in this and some other countries was becoming accustomed.”

But like most of the academic oracles, Dr. Clapham threw out no practical suggestion of a remedy for the economic evils of the day. He rather seemed to resign himself to the inevitable crash. The same spirit of academic resignation prevailed among the League of Nations essayists, whose preliminary brochures for the Conference at Brussels so puzzled the City Editors, whose criticism on them was invited several weeks beforehand. But both the brochures and the criticism have rather tended to intensify the pre-existing fog. They lack concreteness. They point out no specific remedy. They do not lay hold of any definite corner of the problem—for instance, the foreign coal trade, and show how it could be brought back into sound relations with sterling exchange.

They do not even realise that our staple industries, the ruin of which is the main cause of a demoralised foreign exchange, must be restored to a sound economic basis before we can expect healthy foreign trade and finance. Under existing conditions it is simply impossible. The present position of the coal trade proves it. Mr. Mills, the Chairman of the Ebbw Vale Steel, Iron and Coal Company—a concern with over thirty thousand employees and one of the largest of its kind in the world—explained in a recent interview the topsy turvy state to which the South Wales mining industry has been reduced by Government interference. Not the least of its evil effects is the enormous penalties that the country have to pay for imported goods owing partly to the shrinkage of its coal exports.

The miner," he said, "has a minimum pay assured—colliers £5 7s. 1d., timbermen £5 14s., and labourers £4 8s. 6d. per week of forty-two hours—whether he win much, little, or indeed any coal. The collier can readily earn, if he likes, 50s., 60s., or even 80s. a day, but unfortunately many men are now content to work for the guaranteed minimum wages; at

many pits the men have dismissed their check-weighers because there is now nothing to check. At such pits the men receive their minimum wages, the owners receive their pre-war standard of profit, and all is well ; nobody cares.

“ The surplus in question is entirely obtained from the fancy price which this fortunate country is enabled to command from less fortunate countries whose coalfields are not yet in working order. The surplus is, therefore, a chance one of uncertain duration, and clearly does not belong to either the collier or consumer. . . . No one would complain of colliers earning high wages if the result were cheaper coal, as it well could be, if there existed the intention to make it so. In actual practice the cheapest coal is produced at the pits where the earnings are highest. There is one cure, and one cure only—the Government must drop control of this essential industry.

If the miners were to carry out their threat of a national strike it would be a finishing stroke, not only for their own industry, but for scores of others. It might also give the *coup de grace* to British shipping and through it to foreign exchange. No country could long stand the strain of the enormous loss which it would inflict. It has been calculated that a shut-down of the coal mines would cost over eleven millions sterling per week, of which nearly one-half would fall on the colliers. These are the details of the calculation :—

Total output of coal averaged 4,600,000					
tons, valued at 34s. 0 $\frac{3}{4}$ d. at the pit					
head	...	...	...	...	£7,834,375
Treasury loss on surplus profits on					
export coal	...	...	...	...	1,270,000
Shipping freights on export coal				...	707,000
Railway freight				...	1,500,000
					<hr/>
					£11,311,375

Of this weekly loss miners' wages represent £5,040,000.

When the coal scare became serious, it was hoped that relief would be found in the discovery and development of other forms of motive power. Great expectations were fixed on petroleum and the whole world was searched for new oil-fields. Though many were exploited and the supply of oil was immensely increased, it did not keep pace with the insatiable demands. Oil prices rose hand over fist : at a rate far exceeding the rise in coal. Pennsylvania crude oil, the basis of the market which a generation ago used to figure in Reuter's New York prices at 80 or 90 cents a barrel, is now 10 dollars a barrel. Refined petroleum is up to 27 cents a gallon, and Standard White to 24½ cents. These would have been enormous advances even without the aggravation of a falling exchange, but when they have to be paid for at the rate of 14s. or three and a half dollars to the £ they make sterling prices almost ruinous.

During the last quarter of the nineteenth century—the classical period of cheap labour and cheap goods—petroleum could be got in any quantity at 5d. or 6d. a gallon. In 1896, the first year of the universal advance it rose to 9d. Ten years later it had nearly doubled itself a second time. In the second year of the war (1916) it was up another 50 per cent. But it was not until the present year that the boom broke loose and swept away all previous values. The following are the actual figures of these amazing movements :—

		Per gall.		Per gall.
1896	...	9d.	1920 (February)	3s. 8½d.
1906	...	1s. 4d.	1920 (August)	4s. 7½d.
1916	...	2s. 2d.		

Approximately 80 per cent. of the present supplies come to the British market from the United States, and are consequently affected by every fluctuation of sterling exchange

in New York. To-day these represent an addition of 30 per cent. to American prices. In comparing these prices of thirty years ago to those of to-day, allowance has accordingly to be made for the different rates of exchange. In 1890 the £ sterling was freely exchangeable for 4 dollars 86 cents, but now it is worth only about 3 dollars 50 cents. A thousand gallons of refined oil at 7 cents, say, 70 dollars could then have been paid for with £14 4s. But the same quantity of oil would cost to-day 27 cents, say, 270 dollars. At par it would require £55 10s. in sterling to make the payment in New York, but at to-day's rate of, say, 3 dollars 50 cents, it would require £21 10s. more to cover the loss on exchange, say, £77 in all. The real advance is, therefore, from £14 4s. to £77 per 1,000 gallons.

On an import running into hundreds of millions of gallons annually such advances in price may soon become ruinous. Our importation of foreign oils has long since passed the thousand million gallon line, and is still growing rapidly. In 1918 it got up to thirteen hundred millions distributed as under among the several principal classes of oil :—

BRITISH IMPORTS OF PETROLEUM, 1918.

	Gallons.		Values.	
Lamp Oil	...	148,021,000	...	£8,501,000
Motor	...	192,959,000	...	18,426,000
Lubricating	...	102,273,000	...	10,839,000
Fuel	...	842,405,000	...	23,985,000
		<hr/>		<hr/>
		1,285,658,000	...	£61,751,000

If all of these oils had come from the United States this loss on exchange at present day rates, say, 3 dollars 50 cents, would have been a pretty penny. At £61,751,000 par would have been rather more than 300 million dollars, but at to-day's rate (December, 1920), 300 million dollars are equal to

£85,720,-000, indicating a loss on exchange as compared with 1918, of £23,969,000. In other words the slump in the £ sterling would have penalised our petroleum imports by that amount, supposing they had had all to be paid for at the rate of 3½ dollars to the £ sterling. But, fortunately for us, 20 per cent. of them came from countries in which the £ sterling has not yet fallen so low as in the States. Between the rise in oil and the fall in sterling since our petroleum imports must now be costing us a price which should choke off all luxury users except the wealthiest. The above Customs House valuations look perfectly ridiculous beside the latest edicts of the petroleum companies.

The overhead average of 1,285,658,000 gallons at £61,751,-000, works out about 11d. per gallon. Lubricating oil averages only 2½d. per gallon, fuel oil 7d., lamp oil 14d., and motor oil a little under 2s. The recent advances will have doubled them all round and given another downward push to sterling exchange. Moreover, we have at least a dozen other big imports which are joining in the downward push. We paid in 1918 for imported wheat £53,098,000, and for wheat meal and flour £35,682,000, together £88,780,000. But that was a relatively moderate year. In 1917 our bill for imported wheat, meal and flour, had amounted to £102,975,000. That is all liable to be penalised by the collapse of sterling exchange in the producing countries—severe in the United States, milder in the Argentine and comparatively slight as yet in our own Dominions, but liable to become intensified any day.

But the most dangerous import from a sterling point of view is cotton. It costs us well over 100 millions sterling a year; in 1917 £120,590,000, and in 1918 £150,285,000. If that had to be all paid for at to-day's dollar rate of exchange (\$3.50c.), it would cost 30 per cent. more, say, £36,000,000 in

1917 and £45,000,000 in 1918. Happily, a considerable part of it is not payable in dollars and every effort should be strained to increase that portion. Even if the exchange crisis had been purely commercial, if there had been no foreign loan complications it would have been sufficiently serious. But the double load of foreign obligations with which we have saddled ourselves leaves us very little room for choice as to the remedy.

Our Ministers have evidently not had much time or opportunity to study the vagaries of foreign exchange in its classical arenas—Mexico, Argentina and the Central American Republics, or they would have noticed that new currency shrinks slowly at first, but after it gets to a certain depth its descent becomes rapid. It is a very pertinent question if we are not now approaching that danger point. Three and a half dollars to the pound sterling is a very lop-sided relation for us to hold to our principal creditor, the United States. Events are now beginning to follow a similar course here to what they have done in currency slumps elsewhere. After the peg was taken out in March, 1919, sterling exchange declined very slowly for several months. The first scare did not happen until February, 1920. Ministers cannot, therefore, plead that they were taken by surprise. About this time the outlook began to look ugly and in describing it I repeatedly said so. One of these passages I may be permitted to resuscitate :—

“ The currency deadlock, towards which we are drifting, can no longer be denied. It is already in sight, and we shall be none too soon if we start thinking and inquiring how it is to be faced. There is only one way of escape, and it should be obvious not only to our rulers, but to the man in the street. Much more food must be grown at home. There is one fortunate circumstance in our trade relations with the United States. Most of the articles we import from there could as easily be raised at home if we were to stop talking about them

and start growing them. Of the £141,652,000 at which our American imports were valued in 1913, more than a third was for food, drink and tobacco (£50,373,000). Raw materials and partly manufactured goods cost £64,529,000, and manufactures £26,367,000 : many of them within our own reach."

"When the dilemma becomes acute—an eventuality which may not be so very far off—it will be for the two Governments to discover a policy best fitted to serve their common interests. On the British side the obvious remedy is first a vigorous effort to increase our output of domestic produce, and second an equally energetic development of our American exports. On the American side competition with British goods in foreign markets should not be too severe. These must find vent somewhere else if our American debts are to be punctually paid. On this point if on no other the two countries have a common interest. In order to raise £180,000,000 or even £150,000,000 a year of American tribute, British production has to be vastly increased. Whether or not our consumption of foreign goods can at the same time be substantially curtailed is a more difficult question. Attempts at curtailment made during the war were certainly not encouraging.

At the moment even the outlook for larger production is none too hopeful. With a dozen or more of our principal labour centres in revolt it sounds like mockery to talk of expanding industries and larger exports. But the strike mania will doubtless pass over and much of the wasted time may be made up. It has to be, in fact, for this is not a matter of choice or of policy or of academic theory. It is a case of absolute necessity. If the nation is to remain solvent our debt charges both at home and abroad have to be met as they fall due. If we allow them to fall behind the burden of them will grow heavier from year to year until it becomes crushing. If we attempt to pay them by fresh borrowing a double penalty

awaits us. The relative value of the £ sterling will decline just as the German mark has declined and from similar causes. Concurrently the national credit will suffer and it will become more and more difficult to raise new capital for the industrial needs of the country. Money and food will both grow dearer unless a resolute effort is made to avert such a calamity."

It is an obviously awkward position for the British Treasury to have 1,000 millions sterling of foreign debt hanging over its head without knowing when it falls due or how soon repayment may be demanded of it. Partly because of this uncertainty and partly because of the unforeseeable losses on foreign exchange these American liabilities should be reduced as rapidly as may be. It is surprising that such a momentous subject should have been allowed to go to sleep in the House of Commons. Not even a question is asked about it, while the Chancellor of the Exchequer's rare allusions to it betray a very imperfect appreciation of its gravity. His latest disquisition on foreign exchange was absolute platitudinous.

The parrot cry of "More production!" has been little help toward the solution of the foreign exchange problem. Politicians echoed it from platform to platform, but few of them did anything to carry out their own advice. In most of our staple industries there has consequently been a decrease instead of an increase on the pre-war level. Subjoined are a few instructive comparisons:—

Monthly Average.			
	1913.		1919.
Coal (in 1,000 tons)...	24,336	...	19,731
Pig Iron (in 1,000 tons)	869	...	827
Ship Buildings (1,000			
tons measurement)	1,957	...	2,994
Shipping Entries ...	4,089	...	2,463
Imports (in £1,000) ...	54,931	...	122,299
Exports ...	43,771	...	66,531
Index Numbers (whole-			
sale prices) ...	100	...	225
Trade union members			
employed ...	927,000	...	1,501,000

In these figures may be found several keys to the demoralisation of sterling exchange, in other words to the serious decline in purchasing power of the pound sterling. First, we have a decrease of close on five million tons per month in the output of coal ; next a decline of 42,000 per month in the production of pig iron ; then a reduction of 1,626,000 tons per month in our shipping entries. Against these we have an increase of £22,760,000 in our exports, over-balanced by an increase of £67,368,000 in our imports. The only item in favour of sterling exchange was the increase of about 1,000 tons per month in shipbuilding. A most ominous looking item is the employment of 600,000 additional men to do apparently a great deal less work. This clearly suggests that labour trouble is at the bottom of the sterling exchange crisis. -

It is, therefore, labour that must find a way out of the crisis. If British labour will not do it, perhaps foreign labour will. American, Australian, Indian and Japanese colliers are already at work on the problem. They may solve it in the end by bringing the British collier to his senses, but they will make it worse to begin with. A Central News telegram of August 25 (1920) from New York announces that a Swansea Company has concluded contracts for the purchase of 35,000,000 tons of American coal for Europe. Assuming the purchase price to be—as it easily may—in the neighbourhood of £80,000,000, there would be another nice lot of sterling bills to sell in settling for it. The best paper pound ever printed could not long stand up to such reckless watering. It would soon sink into sheer Bolshevism.

CHAPTER XVIII.

THE STATE TRANSPORT JUMBLE.

One of the belated discoveries of the war was that distribution is a more important and difficult problem than production. The producer can, as a rule, do his work on a single spot. He can bring all his producing forces together—often under one roof. His finished article he gets rid of as quickly as he can, and he wastes as little time as possible in getting paid for it. But in the distribution of goods all these conditions are completely reversed. Intricacy takes the place of simplicity and instead of localisation we have world-wide extension. The modern science of transportation takes in land, sea and air. It has innumerable driving powers—electricity, steam, physical force, animal force. There is no limit to its methods or appliances. Within a radius of a few miles may be seen a dozen different kinds of traffic, road traffic, railway traffic, water traffic and air traffic.

All these different kinds of traffic, instead of co-operating as they ought to do, are more frequently in conflict with each other. The road and the rail are still in deadly competition. It is a perennial subject of discussion among transport men whether the railway is to outlive the road or *vice versa*. Their rivalry is of many different sorts and complexions—engineering, financial, commercial and political. But the political discussions are the most virulent and candour requires it be ad-

mitted that they are also as a rule the most futile and fruitless. Nothing less suited than a British Legislature for dealing with any branch of transportation is inconceivable unless it be a Parish Council. Transportation is an administrative job, but administrators and politicians do not belong to the same order of creation.

Only one of our many transport systems has ever had the least claim to be considered scientific. It was the management of the English highways under the regime of the great road building engineers, Macadam and his contemporaries. From the days of the Romans down to the end of the eighteenth century English roads were a disgrace to the nation. An eminent engineer recently observed that "our roads and our canals as we have them to-day are the product of the fifty years between 1780 and 1830, when this country was fighting its way through the revolutionary and the Napoleonic wars and their after effects." The same period was our canal age, and both roads and canals met the same unhappy fate. They had no sooner been brought to perfection than a new and formidable rival appeared. The railways cut so deeply into their frugal earnings that most of the canals were reduced to bankruptcy, while the turnpike roads became a heavy burden on the rates. To complete the tragedy the railways in their turn were bankrupted by the politicians.

So the State transport jumble began and year by year it has been growing worse for the past quarter of a century. While the roads continued under the care of the old-fashioned local authorities some regard was paid to economy and while the old administrative traditions survived efficiency was the rule, not, as now, the exception. But with popular government confusion, muddle and a crowd of other abuses rushed in. A wholly mistaken road policy was adopted by the local politicians. In the division of duties between the national and local

authorities a wrong choice was made. The roads, instead of being nationalised as they should have been for the sake both of economy and efficiency were scattered about among legions of local Councils. To offset that blunder, but in fact to aggravate it, popular education, the subject best of all suited for local purposes, was nationalised.

Consequently, we have now the most expensive and the least satisfactory systems of education and transportation in Europe. To crown the jumble our politicians have started a scheme for bringing all these rival and competitive forms of transport under one hat. They have found a superman whom they consider capable of managing them all by telephone from an office in Westminster, though no one has ever yet made a success of them singly. At the beginning of the war, supermen were very much believed in. Mr. Lloyd George made a speciality of them, but when their accounts had to be settled up a great mortality developed among them. The last and biggest of them all has had his job so tremendously cut down by an envious House of Commons that he begins to throw out hints of its probably not being worth his while to carry on.

Anyhow, to whoever may ultimately fall the heroic task of bringing order out of the transport chaos will require such a combination of gifts as few public men have ever exhibited before. He will have to encounter every conceivable kind of difficulty, obstruction and abuse. Years of political penalising and persecution will have to be undone before he can make a clear start. His unruly and ill-assorted team will be flying in all directions, and the money will go flying after them. So far the new Ministry of Transport has not been fortunate. It has not made an auspicious start, and long odds are being offered against its prospects of longevity.

Among the worst features of the transport crisis is the

vehemence with which it has been distracted by personal questions and party politics. These have absorbed a far greater amount of public attention than the technical and financial issues. If a tithe of the time spent on irrelevant discussion had been devoted to proper study of the problem itself, the outlook for the railways, the roads, the canals, the coasting trade and all the minor branches of transport would have been much more hopeful. As it is our transport directors are plunging into a new regime, of which the most intelligent of them knows very little. It is to be feared also that most of them are learning very little. The whole situation is so novel, so strange, and such a mass of old and new conditions all mixed up together, that no one can see farther than his nose, if so far. All that the poor taxpayers can make out of it is that it is becoming a question whether the roads or the railways are to be the most crushing burden on the country.

Since 1907 the railways have been labouring under a political domination of the most fussy and obstructive sort. The dictators have played for votes rather than dividends. Mr. J. H. Thomas openly flaunts his 450,000 followers in the face of the Board of Trade, the House of Commons and the country. At brief intervals he plays a fresh game of bluff on sympathetic Ministers and all too courteous directors. By heaping up war bonuses and cutting down the men's working hours he has succeeded in practically wiping out the slender dividends which were being paid before the war. Twenty years ago, or even less, such proceedings would have been incredible. That they should now be possible is a sinister feature in our national life. It means that for the railways there is no longer either ethical or economic law. They have ceased to be business propositions and are to be run for the sole benefit of the 450,000 "workers," who happen at the moment to be the men in possession.

But is the campaign of confiscation to stop there? When it has disestablished the shareholders, why should it not oust the managers and the higher officials? Having done that, why should not the firemen dispense with the engine-drivers, and the guards get rid of the inspectors? A 30s. a week porter may have as bad a grievance against a £500 a year official as against a poor little shareholder whom he has never seen, but on whose capital he has been living for years.

Passing over the undisguised and indisputable dishonesty of the anti-railway crusade, let us make a few pertinent inquiries as to its business merits. Has the State been so conspicuously successful with the trading enterprises it has already on hand, that it can be safely entrusted with a bigger one than all the others put together? Has its conduct of the war, and especially its control of private business, entitled it to the implicit confidence of half a million or more railway shareholders? Were politicians, as a class, ever at a lower moral and financial level than those of the past decade?

Even if these business questions could be satisfactorily answered the most important of all would remain. Do Ministers not see that they are trying to apply to the railways the very opposite policy to the one which they have marked out for the minor industries of the country? Those are all to be reconstructed, while the railway system is to be picked to pieces and "nationalised." They are invited to apply to the Treasury for subsidies and privileges of every conceivable kind, while it is to be bled white. Apparently there is little hope of Mr. J. H. Thomas's 450,000 disgorging their war bonuses, and equally little of the traders submitting to a compensatory increase in freight rates. On the other hand, if railway dividends and interests were to be wiped out the State would have to take over the railways whether it liked or not. And it would have to

take them not as a going self-supporting concern, but as a bankrupt wreck.

It is the State itself that has most to fear from the Prime Minister's friend, Mr. J. H. Thomas. His periodical bluffs must end sooner or later in stripping the railway companies of their financial credit and leaving them nothing on which to raise fresh capital. It will be impossible to shut them down, and the only other alternative will be to compel the 450,000 to accept such wages "as the traffic will bear." Even State railways could not go on indefinitely paying out more than was coming in.

Attacks on private capital usually seek justification in wild charges of profiteering, but the anti-railway crusade has not even that excuse. The 1,340 millions sterling which had been sunk in the railways of the United Kingdom when the so-called Conciliation Boards got hold of them, was not earning more than $3\frac{1}{2}$ per cent. overhead. The official averages for 1906 were according to the Board of Trade :—

PER CENT.			
On Loans and Debenture Stocks	...	...	$3\frac{1}{2}$
On Guaranteed Stocks	...	...	4
On Preference Stocks	...	...	$3\frac{1}{2}$
On Ordinary Stocks	...	...	$3\frac{1}{4}$

This was decidedly below the average yield of investment securities of similar quality, and since then their low yields have been accentuated. The public are now paying nearly half as much again on their War Loans as on the capital cost of their railways. If the railways had been capitalised at the same rate of interest as the War Loans they would have cost the country nearly 2,000 millions sterling instead of 1,340 millions. A still more striking fact which railway nationalisers persistently overlook is that if the whole system

had to be rebuilt to-day twice 1,340 millions sterling would hardly pay for it. Many of the terminals could not be reproduced except at prohibitive expense. The railway companies are often reproached by their political critics with the extravagance of their original promoters and builders, but it was more frequently a compulsory than a voluntary extravagance. The high average cost per mile of British as compared with foreign railways was chiefly due to the shameless way in which they were fleeced by landowners and Parliamentary lawyers.

When we begin to analyse our railway capital we find that it is to an unusually large extent nationalised already. A larger number of people hold railway stocks than hold any other class of securities except perhaps War Loans. There are more small owners of railways than of any other kind of investment. No class of property is less open to the reproach of being capitalistic. As for the wild outcry about profiteering, we have seen that it is absurd on the face of it. The new Labour Party propose to draw the capitalistic borderline at £1,000 a year, which would not catch 10 per cent. of the existing railway proprietors. The other 90 per cent. would escape easily underneath it.

There are thousands of railway shareholders who would gladly exchange incomes with the engine drivers, or even with a well-tipped porter. The Railway Share Holders Associations have elicited many pitiful tales of hardship and even ruin caused by the succession of panics, political and otherwise, to which the railway market has of late been subjected. If there were any compensations for these panics they might be philosophically endured, but they benefit nobody substantially. Even the men themselves appear to be little better off for their frequent war bonuses and rises in wages. Other things rise as fast as wages, and will continue

to rise every time this senseless game is repeated, no matter whether the railways be nationalised or not.

Industrial shareholders of all classes have labour troubles ahead of them and many formidable difficulties to overcome, but they may take courage from the thought that economic law, the strongest factor in the conflict, is absolutely on their side. The motley army they have to fight of politicians, bolsheviks, syndicalists, demagogues, theorists, idealists and phrasemongers, will in course of time get played out and the practical sense of the British people will assert itself. In a contest between facts and phrases such as this is, the facts are bound to win in the end.

So at last British railway shareholders are up against the deadly peril which I and others have been warning them of for years past. The question now is whether our warnings are still to fall on deaf ears as hitherto, or to produce some sensible response. A slight advance has been made from the old dead alive attitude, which seemed to defy awakening, but it is only a beginning. Much more will have to be done and done quickly if the peril is to be averted. It is a good omen that the railway directors have stepped into the breach and are now fully awake to a sense of their duty as the natural leaders and protectors of the shareholders. They also were difficult to arouse and much precious time has been lost in consequence. For years they treated the shareholders as children, saying in effect to them : " Leave these little matters to us and we will pull you through." Now that they have utterly failed to pull us through they are sounding the alarm and calling on the distracted shareholders to rally round them.

But for a vigorous and effective propaganda there are yet many things lacking. The mass meeting of the Great Northern shareholders was a good beginning, but it did not get very far. It was only a slogan—not a programme, much

less a policy. The other Boards have not even got as far as the Great Northern directors. They have only issued a preparatory note promising to "summon a meeting of the proprietors when the matter reaches such a stage as to call for consultation with them." From the directorial standpoint this may be all very well. Railway directors have always been highly diplomatic in their relations with the Government and especially with the Board of Trade. They will, we fear, be ever more differential to that superior being the new Minister of Transport.

But in a desperate crisis like the present diplomatic methods have obvious drawbacks. For one thing there is no fight in them. They offer no opportunities for candid criticism of Ministers, bureaucrats and politicians generally, such as members of the N.U.R. enjoy and make diligent use of. Railway directors who are dining and wining occasionally with the Minister of Transport cannot be expected to express to him in sufficiently forcible language the disgust of the shareholders at the clumsy way in which the new rates have been handled from the beginning. If they had been treated as an ordinary business proposition they would have passed through four successive stages, each of which would have been definitely settled before the next was entered upon :—

First. It should have been distinctly settled whether the railways were to be permanently retained by the State or returned to private ownership.

Second. It should have been ascertained what the cost of operating them would be on a basis fair alike to workers and shareholders.

Third. Goods and passenger rates should have been fixed so as to adequately cover working expenses and pay reasonable dividends on capital.

Fourth. Parliament could then have completed the transaction for granting the necessary powers to carry it out.

Something like this would have been the business method, but the political method was as unlike it at every stage and in every particular as it could possibly be made. The four stages were all mixed up together and discussed simultaneously. Not until the eleventh hour could the Government make up its mind whether or not it favoured nationalisation. To make confusion worse confounded it started a number of new Ministries, jumbling together roads, railways, shipping, trading, mining and other public services. Railway shareholders had to look on aghast at the muddle into which their affairs were being plunged. No plain intelligible statement about them could be obtained either from the Cabinet, the Board of Trade or the Minister of Transport. Contradictory returns of railway receipts and expenses were flung at their heads every few weeks. And to crown all came the final stroke of genius—the decision to start the increased rates at the opening of the holiday season!

The bureaucrat who had that happy inspiration must be either a born Machiavelli or very much the reverse. Everybody was puzzled to guess what his diabolical object can have been. Did he intend to give a death blow to the nationalisation craze? Or did he wish to strangle the new rates in the cradle? Or was his evil design to administer a parting kick to the Lloyd George Coalition? In one or all of these evil purposes he may have succeeded, but what concerns us here is the effect his Handy Andy intervention is likely to have on the interests of railway shareholders. To that question a variety of answers are being given. Philosophical shareholders of an optimistic turn of mind may consider that the momentary shock it has caused to railway securities will be amply com-

pensated for by rousing the owners to adequate action in self-defence.

For shareholders the supreme lesson of the crisis is that their last hope is now in themselves. Their politicians have cruelly betrayed them. Their directors have let them down with fair speeches and diplomatic methods. They have given themselves away by allowing all manner of calumny and misrepresentation to pass unanswered. Many practical lessons, which they might have learned from the enemy have been thrown away upon them. With a tithe of the energy and hard work that the railwaymen have spent on their organisations they might have had a sufficient show of strength to command the respect of Ministers and even Radical M.P.'s. Associations have been established in each of the three Kingdoms, but only one of them—the Scotch one—has as yet grown to national importance. The English one, which is the youngest of the three, has lately put on a spurt. Thanks to circulars recently issued by the Railway Chairmen new subscribers are beginning to flock in. If the Chairmen should with reasonable speed follow up their circulars by vigorous propaganda, the railway outlook will rapidly change for the better. No aggrieved class of the community has such a reasonable case as the railway shareholders. The leading points admit of only one answer, as, for instance :—

First, for whose benefit were the railways created, and who has derived most benefit from them—the State or the shareholders ?

Second, what prospect of remuneration was held out to the shareholders for shouldering all the risks of a novel and very speculative enterprise ?

Third, what actual amount of remuneration have they been allowed to earn ?

Fourth, how have they been treated by successive Legis-

latures and Governments during their eighty years of chequered growth?

Plain answers to these plain questions will be found much more creditable to the railway shareholders than to the State. For every pound that the shareholders have got out of the railways, the community has got hundreds. Instead of the 10 per cent. return on their capital, which they were authorised and, in fact, expected to earn they have averaged $3\frac{1}{4}$ per cent. ! Even this beggarly remuneration was now at stake. Every new political device for squeezing the thrifty citizen, who had been foolish enough to save a bit of property was tried first on the railways, not because they were the worst profiteers, but because they were easiest to get at.

Down to a recent point in their history the squeezing process was endurable, but the more Radical the House of Commons became, the more screws of various kinds were put on. At last, with the advent of the Asquith régime in 1906, the railway policy of the State became openly and absolutely proletarian. The railways ceased to exist for their legal owners, who had made them the greatest boon to the nation it ever received. The legal owners were deprived not only of a fair return on their capital, but of the simplest and most essential rights of ownership, including freedom of management and administration. Instead of a self-consistent business-like responsible authority, a swarm of Board of Trade officials, trade union secretaries and Fabian fictioneers took the field with fatal effect on discipline and efficiency.

In little more than a year after the new policy began, the inevitable crisis happened. The railwaymen thought themselves strong enough to threaten a national strike. This was a matter which did not admit of negotiation or compromise. It meant civil war and was for the Government itself rather than for the railway companies to deal with.

Eleven years later the Government did come round to this opinion. In the autumn of 1918, when a similar strike was threatened in South Wales the War Cabinet sent down troops for the avowed purpose of keeping the lines open. Had this been done in 1907 a hideous blunder and a very bad precedent might have been avoided.

CHAPTER XIX.

RECONSTRUCTION.

To some readers this book may seem to be belated, while to others it may appear premature. There are good arguments available for both views. The war itself has receded so far into the dim and distant past as to have almost become ancient history. But its innumerable consequences, political, financial and economic, are all fresh in our daily lives. Not a single problem resulting from the war has been definitely solved. Hardly one of its terrible injuries has been permanently healed. Not a single country—not even the United States, which suffered least—has regained its normal condition. Hardly a clause in the many treaties of peace has been satisfactorily fulfilled. None of the hundred and one international conferences, conventions and conclaves, has reached an intelligible conclusion. Half-finished work, half digested schemes, half developed plans, are strewn all around us. The world is seething with volcanic chaos. To undertake to describe even the smallest fragment of it is a bold task. To picture the whole of Europe in a state of post-war anarchy may defy the power of any single individual. The utmost he can hope to achieve is a rough sketch of one or two of the principal sections.

Acting on this theory, we begin with the principal European country Great Britain. The British share in the war was predominant from the start. Without raising vulgar

questions as to who won the war we may in all modesty recall the crowning services rendered to the victors, not only by British arms, but by British finance, British industry, British commerce and British diplomacy. In every international episode Great Britain had a leading part. In every critical decision of the Allies, civil or military, it had the weightiest vote. In every supreme act of the Allied Statesmen it bore the heaviest responsibility. These things came naturally to us, and not by self-seeking. They are historical facts and not the empty boasts of national vanity. The British share of the war as well as of the peace negotiations, and of the re-organisation arrangements, cannot be rightly understood without taking them into account.

The enormous magnitude of the task we blindly undertook, the stupendous difficulties into which we rushed with utterly inadequate preparation, the world-wide extent and infinite diversity of the obligations which suddenly devolved upon us, should in the minds of all reasonable critics, go a long way toward excusing the historical blunders we committed. Regarding the war itself, criticism was and always will be merciful. Military criticism is to such a large extent the proper duty of experts that public opinion upon it must always be hazy. It is quite capable, however, of judging the civilian operations of war. It knows the meaning of wasteful expenditure, of prodigal contracts, of rotten dumps and of mushroom Ministries. Very late in the day we are unearthing the shameful details of these scandals, and the verdict of history upon them is likely to be merciless.

But posterity may reserve its severest judgment for the post-war activities of the Allies. And these will embrace not merely the Allied Governments, their ruling Statesmen and their responsible politicians, but the rank and file of the people. Every citizen, high or low, official or non-official,

will be held answerable for his share of the universal muddle that has been made of the peace negotiations, of the reparations, of the mandates, the indemnities, and the financial arrangements generally. In this world-wide field strong indictments will lie not only against the actual muddlers, but against the intriguers, the agitators, the mischief makers and all who hindered the good work.

One day the Labour Party in Parliament may have grace enough to be ashamed of the obstructions they threw in the way of the Prime Minister at every critical stage of his peace-making. Is it too much to hope that the Irish nation may one day repent of its murderous efforts to prevent the return of peace to a ruined and exhausted world? In a minor degree there may be censure for the Parliamentary limpets who showed at every opportunity a grim determination to stick to their seats, no matter what happened to the Empire. These are, after all, the worst blots on our war record. Military errors can be mercifully forgiven and forgotten. Administrative blundering may be winked at. Large allowances can be made for financial extravagance, but the unpardonable sin was crabbing the Army and belittling its achievements.

To all such crabbers and belittlers it may now be said with every confidence that the greatest British institution of the twentieth century was the nation in arms. Where it was concerned there was never any question of pounds, shillings and pence. It may now be a gloomy sort of satisfaction to us that it was our ever-glorious Army that brought the nation to the brink of financial ruin. But none the less blameable on that account are the politicians who so greedily exploited its necessities. The worst of the war criminals were the financiers, official and unofficial, who raised the cost of everything to three or four times its normal level. This iniquitous

conduct not only robbed the taxpayers of thousands of millions, but played havoc with our whole economic system.

The main object of the present work is to trace the after effects of the war. In order to understand these thoroughly we must have an intelligent idea of their chief causes. There are three classes of active factors to investigate—moral, political and economic. With the moral effects we have every reason to be satisfied. Great Britain came out of the war on a high moral level—the highest, in fact, in its history. But that distinction was marred by a low political level—the lowest it had known for a whole century. The crux of the crisis is, however, its economic complications. These have accumulated at such a rate that if not soon taken vigorously in hand they may reduce our dearly won victory to national bankruptcy.

Calamity, not only for ourselves, but for mankind, is threatening us. All sensible people foresee and acknowledge it. But it seems impossible to stop the political and financial rot that prevails in high places. Ignorant, inexperienced and unscrupulous pilots have seized the helm of State. Whither they are driving the ship we know not, but no haven of safety is in sight. In these opening days of nineteen hundred and twenty-one we are leaving behind us seven years of storm and stress such as no nation had ever to go through before. We have in front of us a long vista of gloomy and anxious, possibly disastrous years. Are we bracing ourselves up to meet them, or are we simply "Parliamenteeing" and expecting to talk ourselves over them? So far our reconstruction record has been a mass of unworkable treaties and futile re-arrangements of Europe.

It is significant that though we have entered the third year of our reconstruction activities there has been no attempt to measure the progress made or to take stock of past achieve-

ments. The reason may be that among the thousands of schemes that have been started few, if any, have reached completion. Most of them are still in the melting-pot, and only very vague indications of the forms they may ultimately assume are as yet possible to us. But though positive progress has been very scanty, negative results have been numerous and varied. Many pre-war theories, which in their time seemed wise and beautiful, have been discredited. Institutions which should have been inspiring and helpful have proved disappointments. Public men from whom much was expected have drifted into the limbo of have-beens.

Any attempt to distinguish between the failures and successes of the reconstruction period must have recognised tests to apply to them. In the present case three of these should be fairly obvious to the reader. They are the three root problems of reconstruction—labour, food, and finance. Even before the war these three factors were beginning to emerge from the chaos of economic controversy. During the war they became much more important, or, rather, their importance became much more obvious. Since the war they have become the ruling factors, not only in our economic life, but in our national well-being and our industrial progress. Labour, food, and finance are the key notes of our future civilisation. For that reason they have had special prominence given them in the foregoing chapters. Every question of reconstruction comes under one or other of these tests. Clear and definite answers to them will solve most of the problems we are still struggling with.

If, for instance, we can determine satisfactorily the gains and losses of labour in and through the war we may fairly forecast its future. What is now called "organised labour" has made immense strides in several directions, but they have only brought it up against a dead wall. Politically and numeri-

cally it has scored some substantial successes. In their many encounters with the Prime Minister the labour leaders invariably came off best, but since they were passed on to Sir Robert Horne they have had the other side of the case more effectively presented to them. The high wages which they extracted from the Prime Minister have turned out Dead Sea apples. Their nationalising ambitions have received a succession of checks from which it may be doubted if they will ever wholly recover. The experimental raids made on the mines and the railways all failed badly.

As a whole, the Labour record of 1920, though superficially brilliant, is in reality hollow. It attained none of its highest aims, and, notwithstanding the commotion it made in politics and in business, it lost ground with the great body of the people. They discovered the hollowness of its pretensions to humanity and statesmanship, and now class it with the ruck of political profiteers, out for spoil at the expense of the taxpayers. The most hopeful sign of the Labour Party is the zeal with which its leaders are joining in the search for new solutions of its irrepressible problems. If they should adopt compromise schemes like the Government remedy for unemployment they will in effect be abandoning their wild dreams of class war and social supremacy. The more seriously they think of their outlook the more clearly they will see that capital, instead of being the vampire it is painted in their lurid imaginations, is, in times of distress such as we are now passing through, the sheet-anchor of our industrial system.

The second root problem—food—has had two opposite aspects during the war and in the reconstruction period. While the feeding of the Army was a triumph of organisation and efficiency, the starving of the civil population was a disgrace to the nation. In all our previous history there never was such an orgy of blundering, plundering, and profiteering.

Had the war control of food growing and food distribution been planned on the right lines it could have ceased automatically soon after the close of the war. On the contrary, it is still going strong in the third year of peace. It is even becoming doubtful if it can ever be completely restored to private hands. With food consumers counted by tens of millions, and the staple articles of food measured by millions of tons, the question arises how long can private enterprise be safely trusted with the sole responsibility for feeding enormous populations like the people of Great Britain?

Sooner or later there will have to be some kind of international agency set up for regulating the supply and distribution of all the primary foods. What splendid work might it not have done in Central Europe, as well as in France, and Italy, had it existed before the war. There was a nucleus of it in the International Institute of Agriculture, which has its headquarters at Rome. But its functions are purely statistical. It cannot remove a bushel of wheat or influence a single price. But a superior agency is conceivable which would have power to direct the movements of meat and breadstuffs from the producing area to wherever they are most needed. The difficulties of transport and financing would thereby be greatly reduced, with corresponding benefit to the foreign exchanges.

As to the third root problem—finance—it is necessary to speak with extreme caution. Our financial system is rightly considered the strongest and soundest in existence, but we should not forget that it is of pre-war origin, and may not fit so perfectly into the new surroundings as it did into the old ones. It is in a state of transition, and may require some drastic modernising in the immediate future to meet the needs of the economic revolution that has overtaken it. Schemes and expedients of various kinds are being pressed on our British banks which would entirely change the character

of large portions of their business. *Inter alia*, they are being asked to join in creating a new system of long credits for the benefit of impecunious countries.

In such a request circumstances, which should be obvious, are entirely ignored. First of all, the proposed long credits are not to be operated on banking principles, but on a new system of barter. If the latter can be successfully applied, it will be an immense help to the countries making use of it, but it will not be banking. It is more likely to prove a rival to ordinary banking. The London bankers have, therefore, good enough reason to fight shy of it. The mere idea of bartering goods and services, instead of first converting them into money and taking the risk of a slump in their money values is, to most people, heterodox finance, though wherever it may be practicable it would be good business. But British bankers are the last people in the world who can be expected to encourage it.

Their business is to deal in money, and they are the principal agents in the fluctuations of money values. *Ergo* they are indirectly responsible for the rot in the foreign exchanges. Business done by barter eliminates most of these speculative elements. Unfortunately, it will be a very slow process to bring the commercial world on to a barter basis, so the banks need not be unduly alarmed. Their future is safe enough, and one can only wish that the foreign exchanges were equally safe in their keeping. It begins to look as if the only effective cure for demoralised currencies would be a special currency for commercial use—something cut loose from paper money, book credits and gambling counters of all sorts.

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